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SUPPORTING SERVICES FOR GOVERNMENT CONT'D

SERVICES FOR THE PUBLIC

Canada. Royal Commission on Government Organization,

Report.

VOLUME 3

SUPPORTING SERVICES FOR GOVERNMENT CONT'D

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SERVICES FOR THE PUBLIC

PUBLISHED BY THE QUEEN'S PRINTER • OTTAWA • CANADA FOR THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

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CANADA

ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

J. GRANT GLASSCO

F. EUGÈNE THERRIEN

WATSON SELLAR

To His Excellency

THE GOVERNOR GENERAL IN COUNCIL

May It Please Your Excellency

We, the Commissioners appointed by Order in Council dated 16th September, 1960 to inquire into and report upon the organization and methods of the departments and agencies of the Government of Canada and to make recommendations concerning the matters more specifically set forth in the Order in Council dated 16th September, 1960: Beg to submit to Your Excellency the following Reports.

CHAIRMAN

December 3rd, 1962

CANADA

Elizabeth the Second

BY THE GRACE OF GOD ✠
OF THE UNITED KINGDOM,
CANADA ✠ AND HER OTHER
REALMS AND TERRITORIES

Queen

HEAD OF THE COMMONWEALTH
DEFENDER OF THE FAITH ✠

DEPUTY GOVERNOR GENERAL

DEPUTY ATTORNEY GENERAL

TO ALL TO WHOM THESE PRESENTS SHALL COME OR WHOM THE SAME MAY IN ANYWISE CONCERN,

Greeting:

WHEREAS pursuant to the provisions of Part I of the Inquiries Act, chapter 154 of the Revised Statutes of Canada, 1952, His Excellency the Governor in Council, by Order P.C. 1960-1269 of the sixteenth day of September, in the year of Our Lord one thousand nine hundred and sixty, a copy of which is hereto annexed, has authorized the appointment of our Commissioners therein and hereinafter named to inquire into and report upon the organization and methods of operation of the departments and agencies of the Government of Canada and to recommend the changes therein which they consider would best promote efficiency, economy and improved service in the despatch of public business, and in particular but without restricting the generality of the foregoing, to report upon steps that may be taken for the purpose of

- eliminating duplication and overlapping of services;
- eliminating unnecessary or uneconomic operations;
- achieving efficiency or economy through further decentralization of operations and administration;
- achieving improved management of departments and agencies, or portions thereof, with consideration to organization, methods of work, defined authorities and responsibilities, and provision for training;
- making more effective use of budgeting, accounting and other financial measures as means of achieving more efficient and economical management of departments and agencies;
- improving efficiency and economy by alterations in the relations between government departments and agencies, on the one hand, and the Treasury Board and other central control or service agencies of the government on the other; and
- achieving efficiency or economy through reallocation or regrouping of units of the public service.

and has conferred certain rights, powers and privileges upon Our said Commissioners as will by reference to the said Order more fully appear.

NOW KNOW YE that, by and with the advice of Our Privy Council for Canada, We do by these Presents nominate, constitute and appoint J. Grant Glassco, Esquire, of the City of Toronto, in the Province of Ontario; Robert Watson Sellar, Esquire, of the City of Ottawa, in the Province of Ontario; and F. Eugene Therrien, Esquire, of the City of Montreal, in the Province of Quebec, to be Our Commissioners to conduct such inquiry.

TO HAVE, hold, exercise and enjoy the said office, place and trust unto the said J. Grant Glassco, Robert Watson Sellar and F. Eugene Therrien, together with the

rights, powers, privileges and emoluments unto the said office, place and trust of right and by law appertaining during Our Pleasure.

AND WE DO hereby direct that the scope of the inquiry shall not extend to the institution of Parliament.

AND WE DO hereby authorize Our said Commissioners to exercise all the powers conferred upon them by section 11 of the Inquiries Act and be assisted to the fullest extent by government departments and agencies.

AND WE DO hereby authorize Our said Commissioners to adopt such procedure and methods as they may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and at such places in Canada as they may decide from time to time.

AND WE DO hereby authorize Our said Commissioners to engage the services of such counsel, staff and technical advisers as they may require at rates of remuneration and reimbursement to be approved by the Treasury Board.

AND WE DO hereby require and direct Our said Commissioners to report their findings to Our Governor in Council, making interim reports as progress is made, with the final report to be made within a period of two years.

AND WE DO hereby require and direct Our said Commissioners to file with the Dominion Archivist the papers and records of the Commission as soon as reasonably may be after the conclusion of the inquiry.

AND WE FURTHER appoint J. Grant Glassco, Esquire, to be Chairman of Our said Commissioners.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent and the Great Seal of Canada to be hereunto affixed.

WITNESS: The Honourable Patrick Kerwin, Chief Justice of Canada and Deputy of Our Trusty and Well-beloved Major-General George Philias Vanier, Companion of Our Distinguished Service Order upon whom We have conferred Our Military Cross and Our Canadian Forces' Decoration, Governor General and Commander-in-Chief of Canada.

AT OTTAWA, this Twenty-seventh day of September in the year of Our Lord one thousand nine hundred and sixty and in the ninth year of Our Reign.

By Command,

C. Stein

UNDER SECRETARY OF STATE

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ACKNOWLEDGEMENTS

The detailed investigation of the economic and statistical services of the federal government was undertaken by a Project Group under the direction of Professor E. F. Beach, PH.D., *McGill University*, Montreal.

Several Project Officers were associated with this endeavour, and your Commissioners, in recording their names below wish to acknowledge the assistance received:

Professor H. Scott Gordon, M.A., *Carleton University*, Ottawa
Professor A. Asimakopulos, *McGill University*, Montreal
M. Maxwell-Fisher, M.A., *Graham Associates Limited*, Montreal

Also included in this report are the details of the investigation into the external paperwork of the federal government and your Commissioners wish to acknowledge the assistance received from the Project Officers who were associated with this study:

Michel Chevalier, *Chevalier Associates*, Montreal
Philip Creighton, M.A., C.A., *The Thorne Group Ltd.*, Toronto
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Peter E. Ross, B.COMM., *Bell Telephone Company of Canada*, Montreal
G. L. Filippelli, B.SC., *The Consolidated Mining and Smelting Company of Canada Limited*, Montreal

A number of briefs and submissions bearing on this subject were considered and these are duly recorded in the final volume of your Commissioners' reports.

Your Commissioners, in acknowledging the assistance and advice received, dissociate all those named above from any of the findings and conclusions contained in this report; for these, your Commissioners assume full responsibility.

1

INTRODUCTION

It is estimated that 700 professional economists and statisticians are employed in the federal service and that, in addition, some 2,300 auxiliary and non-professional personnel are engaged in economic and statistical work. The federal government spends approximately $14 million annually on the salaries of these 3,000 employees; about two-thirds of this sum is for statistical work, the remainder for economic analysis. Taking into account other related expenses, the total cost of economic and statistical services is found to be approximately $20 million a year.

Considering the importance of these operations to effective government and the size and diversity of the areas to be covered, the current level of expenditure can be described as modest, probably unduly so. The changes and improvements in this field of activity that appear desirable to your Commissioners will, in fact, result in a net increase in expenditure. No other result seems possible if the present quality of statistical work is to be maintained and pressing needs adequately met.

The Civil Service Commission uses the terms "economist" and "statistician" as classifications of professional personnel, but those so described include by no means all who are working as economists and statisticians in the public service. Many professionals included in other classifications, such as "Combines Investigation Officers" or "Trade and Commerce Officers", are in fact doing the work of economists or, to a lesser extent, of statisticians. On the other hand, some professionals classified as economists might be more accurately described otherwise. For example, a few departments and agencies

employ sociologists and these are usually classified as economists because no "sociologist" classification exists.

The organization of economic analysis and statistical operations, respectively, shows important variations in departments and agencies. Professional statisticians are found mainly in the Dominion Bureau of Statistics; elsewhere, it is rare to find groups of more than two or three. Auxiliary non-professional statistical workers tend to be more widely dispersed throughout departments and agencies, usually doing routine clerical work. The Departments of National Health and Welfare and Labour are exceptions to the existing pattern of statistical centralization.

Professional economists are much more widely distributed throughout the service, and sizeable groups are to be found working together in about a dozen places. The Department of Agriculture employs more than 80 economists, almost twice as many as the Department of Labour, the next largest group. There are significant numbers in the Bank of Canada and in the Departments of Trade and Commerce, Finance, and National Health and Welfare; smaller but substantial groups work in the Departments of Fisheries, Justice (Combines Investigation Officers), Mines and Technical Surveys (Mineral Economists), External Affairs, and in the Department of Transport and its affiliated agencies. With some exceptions, economists are usually organized in groups large enough to comprise separate divisions within departments or agencies.

The highly concentrated organization of statistical operations in the public service reflects a deliberate policy decision, taken forty-five years ago, to create a central statistical agency, the Dominion Bureau of Statistics. In contrast, no specific policy has been enunciated with respect to economic analysis, which developed into an organized activity employing substantial staffs only during World War II. At the end of the war, some envisaged that economic analysis would, like statistics, be developed as a centralized activity, but the trend over the last fifteen years has been decidely in the opposite direction—towards dispersion rather than centralization. Thus two important staff services, essential to both national and administrative needs and necessarily interdependent, have developed in quite different ways.

This report examines the adequacy of existing arrangements for making economic and statistical services available for the formulation of policy, for administrative decisions, and for the service and enlightenment of the public. In particular your Commissioners have directed their enquiries to certain considerations of major importance, which may be briefly summarized as follows:

- The effective use by government of the scarce professional skills of economists and statisticians.
- The extent of duplication in broad studies of the economy undertaken respectively by the Bank of Canada and the Departments of Finance and Trade and Commerce.
- The scale of participation by government economists in management and various stages of policy development.
- The degree to which the management and policy needs of the government are adequately served by its central statistical organization.
- The status and independence of the Dominion Statistician, and the extent of his responsibility for and control over the whole of the government's statistical operations.
- The relations of the Dominion Bureau of Statistics with respondents and with the public generally.

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ECONOMIC ANALYSIS

THE MAIN SUB-DIVISIONS

Discussion of economic analysis may be clarified by making some distinctions between the diverse activities in which economists are engaged. With out making any absolute claim for this classification, three types of activity may be distinguished: economic research, current economic intelligence, and specific investigations.

Economic Research

Economic research is the work of building up long-run knowledge of the economy, attempting to discover whatever regularities there may be in economic processes, or endeavouring to arrive at detailed and profound explanations of important economic changes and occurrences. This work may not be immediately useful to government but provides the foundation of knowledge and understanding on which the more current work must be based. The research work of economists in the public service does not differ greatly from that of economists who are either attached to universities or employed by private research organizations.

Economic research may be general or specific: that is, it may be concerned with matters of pervasive significance for the whole of the Canadian economy; or it may be concerned with a specific, limited segment such as air transport or fisheries. Economic research of the general type is conducted by only a handful of professional economists in the public service, and only some of these devote a major part of their time to this work. The Economics Branch of the Department of Trade and Commerce is the principal location of

general economic research; some is also undertaken in the Bank of Canada and the Department of Labour, but to a lesser extent.

Economic research of the specific type is more common. Some departments concerned with particular aspects of Canadian economic life, such as health or forest resources, recognize the value of long-range fundamental research, both in administration and in the formulation of policy, but others do not. In agriculture, for example, there is a great and unfulfilled need for economic research, although the Department of Agriculture employs a large number of economists.

Economic Intelligence

The second type of economic analysis, current economic intelligence, is directed to keeping abreast of current developments, in Canada and elsewhere, that may have an important bearing on the work of the department in which the economist is employed. Again, a distinction has to be drawn between the general and the specific. Some economists, perhaps best exemplified by those in the Bank of Canada and the Departments of Finance and Trade and Commerce, are engaged in general economic intelligence; they are constantly observing economic trends and developments, both national and international, which may have widespread significance for the whole Canadian economy. Other economic intelligence analysts have a more limited concern—perhaps the market for a particular commodity, or the development of a particular industry.

The function of the economic intelligence analyst is two-fold. First, by keeping abreast of economic developments of interest to his department, he is able to advise administrators and policy-makers promptly when significant changes are under way. Thus the policy and administration of the department are founded on better knowledge and implementation can proceed with quicker response. Second, his knowledge is available, at the call of the administrator and policy-maker, to assist in solving departmental problems as they arise.

The work of some government economists consists almost entirely of current economic intelligence; they conduct neither research nor specific investigations. But it would be misleading to make too sharp a distinction between current economic intelligence and other economic analysis, because all good economists try to keep up to date on developments in their own fields of interest. Nevertheless, the distinction is important in understanding the kinds of services that government economists are called upon to render.

Specific Investigations

Specific or *ad hoc* investigations undertaken by economists are closely related to the policy and administrative work of their departments or agencies. The starting point is usually a request or query from the minister or a senior official; any economic analysis is solely for the purpose of satisfying the immediate need for economic information or advice, and the work usually ends when this particular need is met. A particular investigation may occupy the economist for an hour or for several months, and may result in a single-page memorandum or a hundred-page report. Occasionally, specific investigations disclose important areas for further investigation and may be extended, developing in effect into economic research; typically, however, they are very brief.

THE WORKING ENVIRONMENT

In evaluating the state of economic analysis in the public service, it must be appreciated that this is a very recent development as a government activity in Canada. The history of many economic analysis units does not extend back beyond World War II; most of the personnel, from the directors down, have entered the public service since 1945.

Considering the newness of economic analysis as a substantial governmental function, its continued rapid growth, and the relative youth of most of its practitioners, a certain degree of disorganization and unevenness in performance may be expected. These are present, to be sure, but on the whole economic analysis has flourished in the government environment. Young men of skill and imagination have been able to influence the development and organization of the work, which is of high quality.

The conditions that promote and stimulate good work do not seem to be significantly different from those that hamper it. On the one hand, economists are most productive when they believe that their work is useful and has an influence on important decisions; on the other, an economist working exclusively on a series of *ad hoc* studies may wish that senior officials did not find him quite so useful. A competent economist frequently makes a good director of an economic analysis branch; from there it is but a short step to a purely administrative post in the department, and he is an economist no longer. Although the task of developing and sustaining economic analysis is made more difficult, very little can be done, or ought to be done, to discourage the movement of economists into higher administrative posts. Talented administrators are just as scarce as economists, and it would be a

mistake for the public service to deny itself any fruitful source of good administrators.

Indeed, the recruitment of administrators from the ranks of economists may help, in time, to eliminate one of the present handicaps under which economic research operates: in some departments senior administrators have only a cloudy conception of economic analysis, which usually results in an attitude of naive scepticism towards economists in general. The mere engagement of a number of economists is not particularly productive if senior officials do not understand how these professionals can contribute to the work of the department.

Your Commissioners have found that the chief factor limiting the quality and productivity of economic analysis is the pressure of *ad hoc* investigations. These may be a valuable source of interesting leads for research, but this value will be realized only if the economists are given the time and encouraged to follow these leads. In some departments, the unremitting pressure of *ad hoc* analysis is so great as to cause frustration, resulting in recurrent losses of the most promising young economists.

In some cases, these pressures could be considerably relieved by staff increases. But to say this does not go to the heart of the matter by any means. The Department of Finance, where economic research is stunted by lack of staff, has made little attempt to relieve the pressure, apparently preferring to have a lean staff rather than to pursue economic research, and to rely on other departments for the foundation of its own *ad hoc* economic studies. It would be a mistake, however, to assume that research flourishes where the number of economists is large. In the Department of Agriculture, with the largest economic analysis organization in the government, the pressure of *ad hoc* projects is so great that virtually no economic research is done, although the agriculture economy has undergone profound change in recent times and a fundamental understanding of the process is absolutely vital.

The effective employment of economists is not especially difficult, subject to two essential rules: the economist must be given work that is important and demands the use of his special skill and training, and he should have at least some time to follow up significant lines of investigation. No specific form of organization will assure the fulfilment of these conditions; to maintain a healthy and productive economic analysis unit in each department or agency, a proper environment must be created and fostered by the senior officials concerned. There should be some means whereby the verification of any notable failure in this regard might be initiated and sponsored from outside the department, and exceptional cases should be the objects of specific study.

Your Commissioners are satisfied that, having regard to the widely dispersed and varied needs for economic analysis in the public service, it would be impracticable to establish a central economic bureau which would second economists to departments and agencies in need of their services. However, the Personnel Division of the Treasury Board should maintain an active and continuous interest in the development of career opportunities for economists, as for other professional public servants, by establishing equitable scales of remuneration, by stimulating the use of outside professionals (as suggested later in this report) while encouraging government economists to engage in extramural professional and academic activities, and by fostering a programme of interdepartmental transfers designed to broaden professional experience and development.

ROYAL COMMISSIONS

A special word should be said about royal commissions, for many have been directed toward economic problems. A royal commission is, by its nature, an *ad hoc* investigation; it is created to study and give advice on a problem of immediate concern. But a royal commission is often established when important problems of public policy cannot be solved by normal internal processes, drawing simply on the existing fund of economic knowledge, and thus becomes an instrument that sponsors a great deal of new research. Probably more fundamental economic research has been done in Canada at the instance of royal commissions than by all the departments and agencies of government. Some of the economic and statistical work of the commissions has played a vital role in the development of the economic and statistical sciences in Canada.

The royal commission may be an especially productive device for a number of fairly obvious reasons: it has more latitude in securing personnel and is able to assemble superior talents from different parts of the public service, from business, and from the universities; it usually has greater financial freedom; and it has the power and prestige to collect new information that would be very difficult for departments and agencies to obtain. Freedom to publish material is also important; since the publications of royal commissions are not regarded as statements of government policy, a wide range of views may be presented without in any way committing the government. The publication of many of the research studies prepared for these commissions has added immeasurably to the growth and development of economic science in Canada.

PUBLICATION OF RESEARCH PAPERS

In notable contrast to the practice of royal commissions, most government departments and agencies publish very little of their economic research results. The Departments of Trade and Commerce and Finance publish virtually nothing; the publications of the Dominion Bureau of Statistics are confined strictly to descriptive data; the Bank of Canada, apart from monthly statistical summaries, publishes only what appears in the Annual Report of the Governor. The Departments of Labour and Agriculture publish more, but the greater part of the best economic research work done by government economists is available only for government use.

The arguments against publication are strong, but the arguments in favour of selective publication are stronger still. Preparing memoranda for publication takes time; a text designed for internal use is often not appropriate for publication. Even if more time were available, some economists would doubt the wisdom of publication because government research is usually related to matters of public policy under current consideration, and government economists are loath to become involved in public controversy through the publication of research findings.

However, these problems are not insurmountable and must be weighed against the benefits to be derived from a wider dissemination of the results of government research. Publication would contribute significantly to the promotion of research in the universities, and would lead to better informed discussion of economic issues in Canada. Economic journalism in Canada, still inadequate by comparison with standards achieved in the United Kingdom and the United States, would be greatly assisted by the publication of articles by government economists, which would disseminate the results of important research to a wider circle. A publication similar to the United States Department of Commerce *Survey of Current Business,* containing a current review of major trends in the Canadian economy and signed articles by government economists and statisticians, would be a commendable government undertaking.

CO-ORDINATION OF ACTIVITIES

The dispersal of economic analysis throughout the public service suggests the possibility of a duplication of effort that might be eliminated by greater co-ordination and centralization. Your Commissioners have concluded that consolidation of these activities in a central economic bureau is not appropriate. Rather, the several departments and agencies concerned should continue to do their own economic analysis, and should develop staff specifically trained

and equipped to meet the needs of both policy and administration. Co-ordination is now sought through interdepartmental committees, and through the less formal contacts between economists working on similar problems who get to know one another and meet to share experience, methods and information. As staffs increase, the obstacles to informal association become greater, but the foundations of effective co-ordination are already laid in the interdepartmental committee system.

It might be presumed that, because four departments or agencies severally devote substantial effort to general economic intelligence, some wasteful duplication is inevitable, but an informed appreciation of the nature of the work undertaken leads to the opposite conclusion. Approaches from various angles are essential in considering current economic trends and developments, and economic judgments can be more soundly based on these varied approaches than on any single approach. For this reason, any apparent duplication in the current general economic intelligence activities of the federal government should not be regarded as a waste of public funds.

The development of comprehensive economic policy is the responsibility of the Cabinet, and it is likely that the evolution of governmental functions will draw a growing amount of ministerial attention in this direction. Machinery may be required for effective presentation of the results of economic analysis to those who formulate the general economic policy of the government. In departments, the internal organization generally ensures the impact of economic analysis on departmental policy and responsibilities, but machinery is needed for the construction of a general economic policy, traversing the whole range of government operations and providing a coherent framework and context for the particular departmental policies.

The need to integrate economic programmes into a unified economic policy of comprehensive scope has been recognized in a number of countries. Although this raises considerations that run beyond the subject of this report, it may be useful to outline briefly the organizations that have been created for this purpose in France, Great Britain, and the United States.

In France, the Commissariat Général du Plan, which is the oldest and, in many ways, the most far-reaching of these organizations, was created in 1946 to develop the first post-war programme for the reconstruction and expansion of basic industry. The Commissariat, originally a branch of the Prime Minister's Office, was later put under the Minister of Finance and Economic Affairs without being incorporated into his department. The staff numbers only 140, some of whom are temporarily detached from government departments, and much of the work is done in co-operation with other agencies, notably the Economic and Financial Studies Service of

the Ministry of Finance. Compact organization and the use of departmental staff on secondment are deliberately designed to reduce conflicts of responsibility and fit the Commissariat smoothly into the machinery of government.

The Commissariat prepares a detailed forecast of the French economy on the basis of certain fundamental government policy decisions. This forecast is discussed with twenty-five "Modernization Commissions", which comprise representatives of management, labour and other interests for particular industries, before the Commissariat works out a final synthesis and the programme becomes official. This is, in effect, a method of joint forecasting and planning by the public and private sectors of the economy. The role played by economic analysis is apparent in laying the preliminary set of alternatives before the government, in constructing the forecast that is to go to the Modernization Commissions after the government has made certain basic decisions, and in synthesizing the results of the subsequent reviews by, and discussions with, the Commissions. The creation of a central economic analysis staff and the decision to develop an integrated economic policy obviously went hand in hand.

In the United Kingdom, the recently created National Economic Development Council is modelled to a considerable extent on the French Commissariat. As in France, the new body is linked to the Treasury but is not part of the ordinary departmental machinery. The Council itself has twenty members drawn from industry, labour, the universities and the government; the Chancellor of the Exchequer is chairman and the Minister of Labour is a member. The Council is served by a staff composed largely of people on secondment for two or three years from the civil service, industry and elsewhere. The purpose of the Council is to ensure a continuous central study of the plans and prospects of the principal industries, to correlate them one with another and with the government's plans for the public sector, and to relate the whole to the likely course of the economy and the prospective balance of payments. As in France, the need for a central economic analysis staff to fulfil these functions is apparent.

None of the economic agencies of the United States Government can be said to engage in the formal collaboration with the private sector which is the prominent feature of the French and British arrangements for economic forecasting and planning. The Council of Economic Advisers does, however, undertake analyses in depth and long-term projections similar to those of the National Economic Development Council in the United Kingdom and the Commissariat Général du Plan in France. The Council is located in the executive office of the President and is exempt from the civil service laws as to

hiring and salaries; its main functions are described in the United States Government Organization Manual as follows:

> The Council analyzes the national economy and its various segments; advises the President on economic developments; appraises the economic programs and policies of the Federal Government; recommends to the President policies for economic growth and stability; and assists in the preparation of the economic reports of the President to the Congress.

The council of Economic Advisers was originally set up under the *Employment Act* of 1946, and was particularly directed to gather, analyze and interpret information in relation to the policy objectives laid down in that Act. The Council was given powers of consultation with state and local governments, industry, labour and other outside groups, and was directed to utilize, to the fullest possible extent, the services, facilities and information (including statistical information) of other government and private research agencies. With a sizeable staff of economists, the Council constitutes the central economic analysis organization for the United States Government.

RECOMMENDATION

The recommendations made by your Commissioners in Volume 1 of their reports, on the organization and respective responsibilities of the Treasury Board and the Department of Finance, have a direct bearing on the formulation and integration of economic policy in Canada, and on the need for a central economic analysis staff. With the responsibility for central management assigned to the Treasury Board, the Department of Finance should become more positively oriented to its responsibility for the formulation of a comprehensive economic policy; although financial policy would continue to be the most immediate concern, the Department should act as the co-ordinator of all important aspects of economic policy. The economic analysis work of the Department should be greatly expanded so as to fill out existing gaps in the areas covered; more specifically, a central economic staff should be evolved from the existing organization to develop the scientific foundations for the general economic policy of the government.

No immediate transfer of functions between the Department of Finance and other departments is contemplated. It might seem logical, for example, that the economic forecasting now undertaken by the Economics Branch of the Department of Trade and Commerce should be transferred to the Department of Finance, or that work on international trade negotiations should be transferred from the Department of Finance to the Department of Trade and Commerce. These re-allocations might be desirable in time, but they should be left for consideration as the Department of Finance evolves into its proper role.

The immediate concern is the development of a competent central economic staff within the Department of Finance, not to take over work done elsewhere but rather, under the direction of the Minister of Finance, to attend to the development of general economic policy for the government as a whole. To whatever extent, if at all, external co-operation in government economic planning may be sought in the future, the Department would logically serve as a focal point for the collection and dissemination of economic information.

We therefore recommend that: The Department of Finance undertake the conduct of central economic analysis for the purpose of aiding the development and co-ordination of general economic policy.

RESEARCH OUTSIDE THE PUBLIC SERVICE

In Canada, economic research outside the public service is undertaken primarily in the universities. Academic economists, under no pressure to serve immediate administrative needs, are able to follow fundamental lines of investigation more freely than government economists. Much of the university research is of direct benefit to the federal government, either in substantive content or by the development of analytical techniques, and some of the more energetic government agencies maintain a lively interest in extramural economic research work in Canada and abroad. Nonetheless, economic research outside the public service does not yet make a proper contribution to the development of economic knowledge. The teaching of economics has a long history in Canada, but until World War II the number of Canadian university economists was very small and economic research, though of good quality, was far from comprehensive. The rapid post-war growth of economics faculties in the universities parallels the growth in government but, even so, there are today, in relative terms, approximately fifty times as many academic economists in the United States as in Canada.

Most Canadian academic economists are in their early forties or younger, and the next decade will probably see an important acceleration of the academic contribution to economic knowledge in Canada. Nevertheless, the relatively slow development of economic research in Canadian universities, due to shortage of funds, bears on both the quantity and quality of the future supply of trained economists. While the government is spending scores of millions annually to support research in physics and biology, little financial assistance is given to research in the social sciences. In framing national research policy and selecting the scientific fields to be assisted in future

with public funds, consideration might well be given to the claims of the social sciences, hitherto almost totally neglected. Your Commissioners believe that the effectiveness of economic analysis in the federal government could be substantially improved by programmes to stimulate outside research, having regard to the close interconnections between public and academic economic analysis, and to the high potential of complementary productivity.

At present, departments and agencies employ academic economists as consultants on particular problems and, sometimes, to carry out long-range research projects. Your Commissioners believe that an extension of this satisfactory practice should be encouraged. First, outside economists could be appointed to senior research and policy-planning positions within the government for terms of about two years, particularly in the Departments of Finance, Trade and Commerce, Labour and Agriculture; the Bank of Canada should be encouraged to adopt a similar course. In the United Kingdom, the government has utilized this means to secure different viewpoints and to disseminate more widespread understanding of governmental procedures and problems. Second, outside economists could be appointed members of permanent and *ad hoc* committees. The value would far exceed the modest cost of an outside economist whose field of research interest corresponds to the work of a government committee. Finally, outside economists could be used to a greater extent on international negotiating teams, to the benefit of both the government and the profession.

In the United States, organizations like the National Bureau of Economic Research, the Brookings Institution, the Cowles Commission and the Rand Corporation have demonstrated the exceptional usefulness of private research institutes; their value to the government and their important general contributions to public knowledge are universally recognized. There are no comparable organizations in Canada. The Canadian Tax Foundation does good and important work within a limited sphere of interest; the Economic Research Institute at Queen's University has made an important contribution; and the research work sponsored by the Private Planning Association has been valuable. Without discounting the work of these and other research institutions, or of the universities, consideration should be given to the development of an independent economic research foundation in Canada.

These suggestions are put forward as a means of capitalizing on the complementary productivity of all Canadian economists in the public service and outside. However, an association of this nature should not be unilateral. To make the partnership effective, the universities should appoint government economists to their staffs for varying periods, both to encourage research and to utilize specialized knowledge for teaching graduate students.

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STATISTICAL SERVICES

MAIN CLASSES OF USERS

The production of statistical information by government and private undertakings has grown enormously in recent years, reflecting greatly increased public demand and growing ability to produce reliable statistical data. Maturing recognition that business decisions, public policies, and the discussion of public issues require soundly-based factual knowledge underlies the demand for more and more statistical information. Many factors have combined to facilitate the satisfaction of this demand. Better business records; increased arithmetical literacy; the development of survey, sample, and other techniques for the collection of reliable information; the invention of machines for processing numerical data; the training of skilled people to collect, edit, process, and analyze statistics, have all enabled the production of statistical data almost to keep up with the expanding demand. There is no sign of any abatement in the demand for data; on the contrary, the requirements are for more comprehensive coverage, new statistical matrices, and greater detail.

In Canada, statistics are put to four types of use which, while not unrelated, have important differences relevant to the main points examined by your Commissioners; these are:

- Statistical information essential to government for effective administration and formulation of public policy.

- Statistical information to provide business, labour and other bodies with the basis for better-informed decisions.

- Statistical information as a vital element in research by social scientists in the universities and elsewhere.
- Statistical information as a background for the democratic process of discussing and debating important public issues.

Government

Without adequate statistical data, government today could no more carry on its affairs efficiently than could a modern business without accounts. The formulation of general policy and the administration of resources, education, immigration, law and order, public health, social security, housing, taxation, debt management, and other matters of national or regional importance, all require a continuing flow of reliable and up-to-date statistical data. This calls, in turn, for general quantitative measures such as the national accounts, production and price indices, balance of payments statements, and data relating to particular industries or sectors of the economy. In these days, the papers on the desk of any senior administrator or policy advisor in the public service are likely to contain more numbers than words.

Business, Labour and Other Bodies

Similar needs are felt by the administrators and policy planners of modern business undertakings. To maintain a prosperous enterprise in a complex, interdependent and dynamic economy, it has become necessary to base business decisions on a very broad knowledge of demand, supply and cost conditions. This knowledge must be much wider and more varied than may be acquired by personal observation and experience alone. Much of the information required for managing a business comes, of course, from its own books, but even the most elaborate internal accounts cannot reflect important external data such as the percentage of the market captured; the location, age, sex and economic status of potential customers; industry trends in profits, marketing and labour costs, productivity, and capital investment; trends in long and short-term financing costs; and potential concentrations of raw materials and semi-finished components. Business planners must have this information if plans and objects are to be based on anything more than wishful thinking and guesswork. Statistical data, properly presented, can distil myriad facts into comprehensible summaries that disclose relevant relationships.

Parallel needs for statistical data as a basis for policy planning and operating decisions are felt today by labour unions, professional associations, welfare agencies, boards of education, and the administrative departments and agencies of provincial and municipal governments. Without reliable data on

pay levels, labour costs, employment, hours of work, productivity, industrial activity and consumer price levels, most modern labour negotiations would be sterile indeed. Without comprehensive data on population, employment, wage levels, transportation, production and trade, many municipal bodies, both governmental and private, would find their daily tasks infinitely more difficult. In short, economic and social statistics are an essential nutrient in the regular functioning of our present complex society.

Research

The part played by statistical data in modern economic and social research is evident to anyone who examines the scientific journals and monographs published in the fields of economics, sociology, social psychology, history and political science. The social scientist uses statistical data not only to obtain numerical descriptions of phenomena in which he is interested, but also for testing theoretical propositions and hypotheses. In the past twenty years, the social sciences have been transformed by the development of mathematical and metric techniques. Current development of the electronic computer will cause a further revolution in both the methods and effectiveness of those social sciences that can make analytical use of statistical data.

But advanced techniques and electronic equipment are of little value without data that have the qualities of reliability, continuity, and integration essential to advanced mathematical analysis and computing methods. At the present time, social scientists spend a great deal of effort trying to fill gaps in older statistics or to adapt modern statistics to the requirements of their analyses. A clamour for more and better statistics from government sources continues at a high pitch.

The Public

The significance of statistical information in public discussion of economic and social questions is obvious from even the most cursory survey of the popular press and other mass media of communication. Contemporary discussion of these matters by popular writers, commentators and political leaders is regarded as incomplete without a scattering of statistics. Whatever may be thought of the use made of statistical data in such discussions—and professional social scientists and statisticians must at times have serious doubts about the value of this contribution to public enlightenment—factual numerical information plays an important role in public debate.

This particular use of statistics is a matter of special interest to your Commissioners. The statistical work of the federal government is important not only to the professional user but to the general public, who are influenced by

this information when arriving at judgments essential to the democratic process. The integrity of official statistics, which has important implications in the organization of government statistical services, is discussed later in this report.

ORGANIZATION CONCEPTS

The Need for Integration

The uses of statistics delineated above require something more than "reliable data" in the simple sense of the term. The individual statistical series is of limited interest in itself; almost invariably, the user of statistical data will want to employ different statistical series jointly. "Reliable" individual series of data may be produced in a number of different ways, for different definitions and concepts may be chosen, with equal validity, as the primary foundation. Recognition of the possible joint use of statistics means, therefore, that all the series must be designed from the beginning to facilitate joint use. Data on such matters as production, trade, prices, and incomes are not separate and distinct but closely related, and must be comparable if analytical penetration is to be achieved. Sociological statistics have the same requirements. Data on police arrests must be comparable with data on courts, jails, and penitentiaries; important composite statistics such as the national accounts, input-output tables, and various production and price indexes could not be constructed at all if the original series on which they are based were not, or could not be made comparable. The production of the most useful statistics, therefore, requires not only expert work on each individual series, but that the whole output should be conceived as an integrated statistical system.

An integrated statistical system raises the question of the desirable degree of centralization for Canada, which has been debated by professional statisticians for many years, without the emergence of a consensus. Wholesale integration involves a danger that the system may harden into a set form which is insensitive to developments in theory and analytical techniques. On balance, however, an integrated statistical system is so much more useful than a mere collection of disparate data series that the risk of ossification must be taken. The danger would be appreciably lessened by appointing more subject-specialists to the staff of the Dominion Bureau of Statistics. In the view of your Commissioners, the production of statistics by the federal government should be organized in such a way as to promote a high degree of systematic integration.

The points most frequently advanced by those supporting the principle of decentralization of statistical services are:

- To the extent that statistics are used internally—for the formation of departmental policy and for departmental administration—the data will be more suitable if collected and processed by the using department.
- A centralized statistical agency cannot have as intimate an appreciation of the statistical requirements of departments.
- In statistical collection, the co-operation of respondents is more easily secured by a department with administrative responsibilities in the same area than by an agency concerned only with statistical collection.
- The task of statistical collection and processing in an advanced economy is so great that a centralized statistical agency would be too large to be well managed. It would have to be fragmented into subject-matter divisions for internal administrative reasons, reproducing within the centralized statistical agency the existing departmental divisions.

It is also contended that many statistical data are collected, not as an independent operation, but as a by-product of the ordinary administrative activities of departments. The tax returns submitted to the Department of National Revenue yield a large number of series on the productive, financial, and commercial activities of business corporations. Even if it were desirable, the collection of data could not be separated, in this and similar cases, from the administrative functions of a department.

Those who support the principle of centralization in the organization of statistical services stress the following points:

- The important requisite of statistical integration can best be met by an agency primarily concerned with statistics and the over-all quality of the statistical system. Where statistics are collected departmentally, integration requires a degree of interdepartmental co-ordination and co-operation that is difficult to obtain.
- A centralized agency can achieve substantial economies in operation, such as in tabulations, computations, printing, and distribution services.
- A centralized agency can operate a chain of regional offices for follow-up work and for conducting field surveys.
- There is more efficient use of scarce skilled manpower, and of expensive mechanical and electronic equipment.

- Within a centralized agency there can be a lateral movement of professional staff, whose knowledge and skill in one statistical area can make a critical contribution in others where difficulties may have developed. Related benefits arise from close association and mutual education of professional statisticians employed and housed in one centralized agency.

It is generally agreed that statistical resources are likely always to be insufficient to meet all demands and must, in effect, be rationed in a balanced fashion. The factors on which judgment must be based to achieve a balanced development are intangible in any one statistical field, and comparisons between statistical fields may be even more nebulous. Comparisons must be made somehow, however, and decisions reached. A necessary prerequisite is a full knowledge of the problems of creating statistical series, their accuracy, and their role in economic and social decisions. Centralization does not provide an easy solution, but a centralized agency can make comparative evaluations more effectively and can arrive at decisions with more despatch than a number of independent statistical authorities.

There is also the important matter of objectivity, which implies that statistics must be accurate, and that they should be released promptly. Statistics are a powerful instrument of exposition and argument, and it is imperative that this kind of information should provide an unquestionably objective basis for public discussion. The integrity of the statistical system of the Government of Canada must be above suspicion.

To suggest that a centralized and specialized statistical agency is likely to meet this vital requisite better than decentralized units is not to cast doubt upon the integrity or efficiency of the latter. It must be recognized, however, that in decentralized operations statistical considerations are in danger of being pushed aside by urgent needs for day-to-day action. This conflict of interest may result in delaying, or failing to produce at all, statistical series of value to the public but of little immediate or apparent consequence to the department. The occasional charge of bias against official statistics, and the heat generated thereby, makes it clear that the public demands statistical facts detached as fully as possible from political and other special interests, and produce without questionable alterations in the timing of publication.

Conclusions

It is impossible to evaluate the arguments for and against centralization of statistical services on any basis that is not, fundamentally, a matter of subjective judgment. Your Commissioners are of opinion that centralization

is desirable. This conclusion is influenced by Canadian experience with the Dominion Bureau of Statistics. Over the years the Bureau has won an enviable reputation, and the Canadian statistical system, of which the Bureau is the centrepiece, is highly regarded both in Canada and abroad. One need not seek to establish how much of this achievement is due to the centralization on which it is built; how much is due to the Bureau's statutory independence of other departments; or how much may be ascribed to the Bureau's exceptional good fortune in the choice of its first chief officer and his successors. The fact is that it has been a success.

Of course, it is neither necessary nor desirable to have a completely centralized statistical system; departments must be free to collect and process certain kinds of statistics themselves. The governing principle is that statistical activities of departments should be confined to experimental work on a relatively small scale. Whenever a statistical procedure advances to the point where it can be systematized, the Bureau should take over. All statistical activities that employ substantial numbers of statistical personnel or make large expenditures on tabulating and computing equipment and other facilities should either be the responsibility of the Bureau or, if undertaken by a department, subject to review by the Dominion Statistician.

THE DOMINION BUREAU OF STATISTICS

Early Statistical Activities

Before 1918, the existing body of government statistics was the result of the unco-ordinated and sometimes haphazard work of the several departments. The growth of the country in the years after 1900 and the increasing complexity of its economic problems drew attention to the inadequacies of the statistical system. This culminated in the appointment, in 1912, of a Commission of six "to examine and report on the official statistics of Canada". The Order in Council appointing the Commission made reference to the dearth of statistics of production and distribution, the duplication of effort between departments, and the absence of co-ordination and collaboration. The Commission was directed to develop a plan for "a comprehensive system of general statistics adequate to the interests of the country and in keeping with the demands of the time". The following passages are quoted from the report of the Commission:

Though many of the statistical reports issued by various departments and branches are of undoubted excellence and value, there is apparent in the body of Canadian statistics, considered as a whole, a lack of coherence and common purpose. This is traceable to imperfect appreciation in the past of the fact that the statistics of the country, whether the product of one agency

or several agencies, should constitute a single harmonious system, with all divisions in due correlation.

On the contrary each department or branch, charged either directly or indirectly with statistical investigation, has concerned itself primarily with the immediate purpose only in view. This is, from the usual standpoint, quite as it should be; a department is not to be expected to regard points of view beyond the scope of the administration assigned to it. Nevertheless, the effect statistically has been to inculcate routine and the neglect of opportunities for furnishing wider information and service.

As a result of this enquiry, the office of Dominion Statistician was created in 1915 and the Dominion Bureau of Statistics established in 1918. Since then, the Canadian statistical system has undergone very extensive development.

Terms of Reference

The *Statistics Act,* clearly envisaging a centralized and fully co-ordinated statistical system, enacts that:

3. There shall be a Bureau under the Minister, to be called the Dominion Bureau of Statistics, the duties of which are

   (a) to collect, compile, analyse, abstract and publish statistical information relative to the commercial, industrial, financial, social, economic and general activities and condition of the people;

   (b) to collaborate with all other departments of the government in the collection, compilation and publication of statistical records of administration according to any regulations;

   (c) to take the census of Canada as provided in this Act; and

   (d) generally to organize a scheme of co-ordinated social and economic statistics pertaining to the whole of Canada and to each of the provinces thereof.

The degree of centralization and co-ordination envisaged by the Act has not been achieved in practice. The reason is that nothing on the statute books, either in the *Statistics Act* or elsewhere, actually limits statistical activities in other departments or agencies, or subjects them to any form of control. Lack of precision and harmony, and even direct incompatibility with the *Statistics Act,* characterizes the statutory powers of the departments on statistical matters. The statutes establishing the Departments of Fisheries and Transport do not mention statistics, although both departments do a substantial amount of statistical collection that is not a mere by-product of administration. On the other hand, the *Department of Labour Act* is specific:

4. With a view to the dissemination of accurate statistical and other information relating to the conditions of labour, the Minister shall collect, digest and publish in suitable form statistical and other information relating to the conditions of labour, shall institute and conduct inquiries into important industrial questions upon which adequate information may not at present be available, and issue at least once in every month a publication to be known as the Labour Gazette which shall contain information regarding conditions of the labour market and kindred subjects, and shall be distributed or procurable in accordance with the terms and conditions in that behalf described by the Minister.

The *Department of Mines and Technical Surveys Act* provides that:

6. the Minister shall (a) collect and publish full statistics on the mineral production and of the mining and metallurgical industries of Canada, and such data regarding the economic minerals of Canada as related to the processes and activities with their utilization, and collect and preserve all available records of mines and mining works in Canada;

The *Statistics Act* simultaneously provides for the collection of data on general employment and wages, and also on the production of mines. The quotations are inserted to illustrate the variety of enactments, which leads to duplication of administrative effort, to disagreements within the public service, and to spasms of irritation by those required to provide data. Appropriate action to clarify fields of responsibility would be in the common interest.

The basic weakness lies in the *Statistics Act,* which requires the Dominion Statistician "to collaborate with all other departments" on statistical matters and "to advise in all matters pertaining to statistical policy" but does not require the other departments to collaborate with the Dominion Statistician. The Act further requires the Dominion Bureau of Statistics "to organize a scheme of co-ordinated social and economic statistics . . . . ." and enjoins the Dominion Statistician "to organize and maintain a scheme of co-operation in the collection, classification and publication of statistics as between the several departments of government", but provides no machinery or authority to these ends, on the apparent assumption that the mere existence of a central statistical agency is sufficient to ensure co-ordination.

In 1957, in an effort to promote better co-ordination, the Treasury Board advised departments that:

. . . The Board hopes . . . that departments and agencies will take the initiative in discussing their problems with the Bureau and no new statistical operations will be undertaken without this consultation . . . It is the intention of the Board that any staff requirements arising out of statistical functions will be scrutinized during the meetings of Establishment Review Committes to ensure that this procedure has been carried out.

There is little evidence that this resolve has either influenced government departments or produced any improvement. The danger remains, therefore, that unco-ordinated and redundant operations may be initiated by departments without the knowledge of the Dominion Statistician, and may quickly become inextricable from other departmental activities.

Co-ordination

In the United Kingdom and the United States, government statistical services are decentralized. As a result, there has been more explicit attention to the problem of co-ordination in those countries than in Canada, and co-ordinating machinery has been developed to a high degree.

In the United States, the need for an agency to co-ordinate the extensive

statistical operations of the government led to the creation of a Central Statistical Board in 1933. The authority of the Board was greatly increased in 1939, when it was incorporated into the Bureau of the Budget in the Executive Office of the President. This body, now called the Office of Statistical Standards, is placed at the highest executive level in government organization and has extensive powers over all statistical work throughout the agencies of the United States government. With only a few specified exceptions, all information requests that are to be sent to ten or more respondents must be approved by this Office, which thus has full control over statistics collection. The Office is responsible for the development and application of standard definitions, classifications, and procedures to be used by all statistical agencies, thereby enabling it to promote the development of an integrated statistical system. The Office plays an important part in the Budget Bureau's examination of the budget estimates of the statistical agencies. Since 1949 the Office has prepared a consolidated budget of statistical activities, which is used to review the functions of the statistical system as a whole; thus, the statistical activities of a particular department are evaluated by the Bureau of the Budget, not so much as a departmental function but as a part of the government statistical service.

In the United Kingdom, co-ordination is assigned to the Central Statistical Office, established in 1941 within the Cabinet Office. This Office has certain statistical operational duties of its own, but it also has power, directly and through the Treasury, over all statistical operations of the United Kingdom government. It exercises its authority to achieve standardization, co-ordination and integration of statistics, and to promote statistical development. The Director of the Central Statistical Office has authority over the appointment, promotion, and duties of statisticians throughout the government service.

The important conclusion to be drawn from these developments in the United States and the United Kingdom is that, while opinions may differ about the proper way to organize statistical operations, there is widespread agreement that the elements of a modern statistical system should be closely co-ordinated. The centralized Canadian statistical system is, paradoxically, less able to achieve co-ordination than some decentralized systems. Centralization has evidently led to a failure to appreciate the importance of co-ordinating the small but important statistical operations outside the Dominion Bureau of Statistics, and the necessary machinery has not been created to give effect to the policy enunciated in the legislation. One result has been to orient the Bureau towards concentration on work for the public, to the detriment of departmental requirements for management information. These problems will not be overcome without a strong effort to reorganize the government's statis-

tical activities, involving changes in the status and powers of both the Dominion Bureau of Statistics and the Dominion Statistician.

Current Defects

The status of the Dominion Bureau of Statistics is ambiguous. Independent of any department by statute, but under the Minister of Trade and Commerce, in practice the Bureau is usually regarded as part of the Department of Trade and Commerce. The Dominion Statistician does not have the status of a deputy minister, and this, together with the Civil Service Commission's rather rigid and questionable distinction between those who participate in policy-making and those who do not, places the whole salary structure of the Bureau a notch (or more) lower than that of other departments. The evidence is that officers of the Bureau are restricted to levels of remuneration incompatible with their skill, training and responsibility, and clearly not in accordance with the current competitive market.

The significant point about the status of the Dominion Statistician is that it is a function of government statistical services to provide factual material objectively. A fundamental requirement is that the statistical services should operate with unimpeachable integrity. The status of the Dominion Statistician must be appropriate to his functions, conferring upon him the absolute freedom to refuse requests that might impair the objectivity of statistical operations. It goes without saying that the principle of unimpeachable objectivity applies with equally imperative force to the statistical operations of other government departments.

The several divisions of the Bureau are not adequately staffed with professional statisticians, and the avoidance of any overt failure of the statistical system is largely due to skill in making the best use of those available. It is hard to resist the conclusion that good luck has been as important as good management in preventing serious failures in recent years; typically, an entire statistical process is under the guidance of only one or two professionals, with no juniors or understudies capable of being trained to senior posts or able to keep the process going in an emergency.

The compilation of the statistics of Canada's balance of international payments is a good example. The compilation of this very important set of statistics involves a high degree of skill and knowledge which is specific to this particular area. The process cannot be reduced to routine and it is not possible for a statistician working in another area quickly to master the complexities. At present these statistics are of high quality and are produced with reasonable speed. The resulting impression is one of stability,

but the organization is actually on a tenuous foundation. If one particular person in the National Accounts Division of the Bureau should die, fall seriously ill, or suddenly resign, the balance of payments statistics would be delayed and the quality seriously impaired for some months. If two people in this Division were to leave simultaneously the process might even have to be suspended temporarily, and it might be years before the former quality was restored. This condition, present also in other divisions, is not satisfactory; the danger of serious interruptions of important statistical processes is too great.

Beyond the current programmes of the Bureau, statistical development throughout the public service requires the attention of professional staffs. With a shortage of professional statisticians, the Bureau has been unable, in recent years, either to undertake or to assist in important development work, and Canada is now significantly behind a number of other countries in some of the newer statistical areas. Examples are the development of comprehensive statistical matrices, such as input-output tables and financial transactions accounts, which have proved most useful in the development of general economic and financial analysis and policy. In other countries, statistics have advanced to the point where senior government officials can make good use of them in advising on economic policy. In Canada, the inadequacy of the skilled resources available to the government has generally retarded statistical development.

One argument commonly advanced against centralization is that statisticians of a centralized agency are not in sufficiently close touch with the work of the departments using the statistics. This difficulty can be overcome only by providing, within the Bureau, a number of subject-specialists sufficient to study and understand the research, policy and administrative problems of the various users. In addition, the Bureau should be adequately staffed to provide specialist technical advice to departments and agencies grappling with complex statistical problems. The professional statistical staff will have to be expanded to fill these needs.

RELATIONS WITH THE PUBLIC

Part of the primary statistical information reaching the Dominion Bureau of Statistics is collected by departments in the ordinary course of administrative operations. Much of the larger part, however, is collected directly, bringing the Bureau into immediate contact with the general public. Departments and agencies use approximately 4,000 different forms for completion by the public, which are referred to as external forms. Almost 1,000 are used

solely for the collection of statistics, and about 800 of these originate in the Dominion Bureau of Statistics. Although eighty per cent of all external forms go to the Unemployment Insurance Commission, the Department of National Revenue and the Post Office statistical forms attract the largest number of complaints, comments, and suggestions.

Undoubtedly the public distinguishes between returns required for regulatory purposes and requests for statistical information, viewing the latter as a mere nuisance of dubious utility. Regulatory forms are accepted philosophically, and some administrative forms relate to benefits to the respondent. In the statistical field, therefore, the creation of good respondent relations requires a conscious and continuing effort. The *Statistics Act* gives the Bureau powers of cœrcion, but these have been sparingly used. To secure prompt and accurate information, the co-operation of respondents is essential, and the Bureau cannot afford measures that are too authoritarian.

The Bureau has accordingly been concerned with the question of relations with respondents for many years, and has developed useful links with several sectors of the public. Respondent relations have benefited substantially from the care exercised in the design of forms, schedules and publications, and from prompt attention to requests for statistical data from the public. The Bureau is aware of the need to develop its interrelated respondent and public relations functions; in the latter, staffing procedures must be kept extremely flexible, since there are important periodic variations in the workload.

There are a number of problems inherent in good respondent relations. First, many respondents are not users of the resultant statistics, and many others are unaware of the use to be made of the information requested. Small firms tend to ignore the utility of public statistics in making business decisions, and therefore often do not give serious attention to the completion of forms. In larger organizations, returns are generally completed with care because the resulting data are of use in marketing or other operations.

Second, the required information may not be available in the form requested. A good example is the annual census of manufacturers, which comprises a large series of schedules to be completed annually for the Dominion Bureau of Statistics. These returns are primarily concerned with analyses of material costs, class and cost of labour, consumption of electricity and other fuels, and the value of shipments. A central difficulty for respondents is the conversion of accounting information into statistical data. Most of the schedules are completed in accounting departments, and the difficulties of the task are aggravated by the incompatibility of accounting systems with the requirements of this statistical return. Since it is often impossible to

obtain some of the data from regular accounting records, the accountant is left with a choice between maintaining special records and making guesses. Neither of these solutions is particularly satisfactory, but the Bureau should indicate when and where sober estimates would be regarded as acceptable returns.

Third, some respondents have an exaggerated impression of the extent of duplication in requests from the Bureau, other federal departments and agencies, and provincial governments. This problem is of particular significance in transportation, where some eighteen departments and agencies are interested in various aspects of the carriage of goods and people, while labour and payroll statistics are collected by seven departments and agencies.

In the report *Paperwork and Systems Management,* your Commissioners commented upon inadequate standards of forms design, which has strong influences on respondent relations. Admittedly, many schedules are very complex and represent a challenge to the forms designer. Regrettably, few equal the high standard of the T2—Corporation Income Tax Return—used by the Taxation Division of the Department of National Revenue.

The Dominion Bureau of Statistics employs several techniques in the attempt to mitigate these problems—personal contact, displays and speakers at conventions, pamphlet stuffers in questionnaire envelopes, publicity for the facilities of the Bureau and improved design of forms and schedules—and urges industrial and financial economists and those engaged in market research to maintain closer contact with accountants for the purpose of promoting better response to statistical requests. In the past, however, these activities have not been envisaged by anyone as a major function of the Bureau. Your Commissioners believe that greater emphasis should be laid on the development of better respondent relations, and a reassessment of the staff resources devoted to this activity is overdue. The aim should be the establishment of a well balanced respondent-relations programme, supplementing the personal liaison and information activities now carried on by the Bureau. As the Bureau moves to meet the growing demand for statistics, the load placed upon respondents grows; the Bureau should therefore regard the maintenance of excellent respondent-relations as an integral part of its main task.

RECOMMENDATIONS

It is a matter of public concern to maintain the independence and integrity of the Dominion Bureau of Statistics. Like the Dominion Statistician, a few public officers—the Comptroller of the Treasury is an example—are, by law, personally answerable for the application of certain enactments of

Parliament. Each is under a minister but need not accept responsibility for ministerial decisions, the aim being to ensure that certain activities are not subject to the pressures inherent in public administration.

The Dominion Statistician holds office "during pleasure" and may be removed at any time. The Comptroller of the Treasury, under the authority of later legislation, holds his appointment "during good behaviour" and may be removed only for incapacity, inability or failure to perform his duties properly, or for other cause. Your Commissioners are of the opinion that it would promote public confidence in government statistics if the Dominion Statistician held office under the conditions applicable to the Comptroller of the Treasury.

We therefore recommend that: The Dominion Statistician hold office during good behaviour and be removable only for cause.

To permit the co-ordination of statistical activity, positive action is required to bring the operations of other departments and agencies under review by the Dominion Statistician. In view of the present statutory responsibilities for statistical work, it may not be appropriate to confer direct powers of intervention on the Dominion Statistician. Your Commissioners believe that the situation can be met by providing for periodic examination by the Dominion Statistician of all statistical work conducted in other departments and agencies.

We therefore recommend that: The Dominion Statistician be required to audit the statistical programmes of all departments and agencies (other than large proprietary corporations) and to report annually to Parliament on the state of government statistical services.

Your Commissioners believe that every department should be free to engage in statistical work for its own purposes, but that the conduct of programmes calling for large expenditures on staff or equipment should be entrusted to the Bureau. A critical review is now required of certain major programmes, and advice should be sought not only from government sources but also from the principal users of the statistics.

We therefore recommend that: The Treasury Board review statistical activities in the fields of health, labour and transport with a view to determining the

appropriate allocation thereof between the Dominion Bureau of Statistics and other departments and agencies.

In other reports, your Commissioners have referred to the need for better statistical information in areas of management and policy formulation; manpower and scientific statistics are two examples.

We therefore recommend that: The Treasury Board rely upon the Dominion Statistician for assistance in securing statistical data needed for management and policy decisions, and as the principal source of advice on all statistical programmes and the employment of statisticians within the public service.

Reference has been made to current staffing problems within the Bureau, largely related to scales of remuneration, which result in serious shortages of professional manpower.

We therefore recommend that: The remuneration of the professional and auxiliary staff of the Dominion Bureau of Statistics be reviewed for compatibility with that of comparable personnel elsewhere in the public service.

In the view of your Commissioners, the convenience of the public, as well as the quality of statistical data, can be improved by a professionally competent screening of all requests for statistical information emanating from any department or agency of government.

We therefore recommend that: All departments and agencies requesting statistical information from more than ten respondents be required to provide the Dominion Statistician with copies of the request and all accompanying forms, schedules and questionnaires.

Your Commissioners received, during the course of their inquiry, the interested co-operation of scores of organizations representing segments of the public. Positive benefits would accrue from the establishment of machinery whereby public reactions to information requests can be communicated to the government on a continuing basis.

We therefore recommend that: An advisory council be formed, comprising representatives of the principal users of statistics and other public bodies, to meet periodically with the Dominion Statistician to discuss statistical programmes and the problems of respondents, and to report annually to the responsible minister.

13 PUBLIC INFORMATION SERVICES

SUPPORTING SERVICES FOR GOVERNMENT

REPORT 13: PUBLIC INFORMATION SERVICES

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Your Commissioners, in acknowledging the assistance and advice received, dissociate all those named above from any of the findings and conclusions contained in this report; for these, your Commissioners assume full responsibility.

1

INTRODUCTION

Information activities in the public service range from the reporting of policies, events and discoveries to the promotion of ideas and images. Every department and agency engages in some of these activities, whether or not they are formally recognized in the organization structure, and in a literal sense the information function is carried on at all levels from the minister and deputy minister to the switchboard operator. The nature of the task and the weight attached to it vary according to the purposes of the department or agency, and in each case some techniques and media of communication are more suitable than others.

In its broadest sense, the provision of information to the public is an integral part of the day-to-day working relations between all levels of the federal government and the Canadian public. The development of special machinery within the government to prepare and disseminate information was gradual, and generally occurred in recent years, although shortly after the Department of Mines was established in 1907 an Editorial and Information Division began to edit and publicize the scientific and other official reports of the Department. Three years later the Department of Agriculture, which had been issuing bulletins for farmers since 1887, created a Publications Branch. A decade later, the new Department of National Health established a Publicity and Statistics Division to enlighten the public on such matters as maternal and child welfare, and the dangers, incidence and treatment of various diseases.

In the ensuing years, a number of circumstances have combined to influence more systematic treatment of the information function. First, the growing

range and complexity of government operations have accentuated public demands for information about government policies and programmes. Second, the increasing involvement of government in the economic life of the country has included a growing emphasis on promoting improved methods in the development and utilization of Canadian resources. Third, an increasing sense of national sovereignty and at the same time of interdependence in world affairs has created a growing concern with the projection abroad of Canadian viewpoints and aspirations. Fourth, the development of mass communications, especially radio, film and television, created a need for new kinds of specialists. Finally, the evolution of public relations techniques in industry has suggested, rightly or wrongly, the adaptation of these techniques to government purposes.

As in so many other matters, World War II had a catalytic effect on the development of specialized information services in the government. The machinery then established was designed for wartime needs—to explain and enlist public support for the war effort. To a degree, it was a propaganda effort with a special department headed by a minister assigned the task, and was dismantled at the end of hostilities. But the wartime experience left a lasting impression on political leaders and administrators and during the next few years most departments and agencies which had not already established information services did so.

However, the specialized services still account for only a part—and probably the lesser part—of the information activities of the government. Because the information function exists at every point of contact between the machinery of government and the public, it is bound to remain diffuse and unspecialized, with dimensions not susceptible of statistical measurement.

In the following chapters, the public information services of the government are examined in the broadest sense of the term, first to identify the principal objectives at which those services aim and then to assess the ways in which public information services are organized and conducted throughout the government.

2

INFORMING THE CANADIAN PUBLIC

The information tasks of government fall into four broad categories. Three of these relate to the information services of the government in Canada and are dealt with in this chapter. The fourth, involving services abroad, will be dealt with in the succeeding chapter. An understanding of these tasks is essential to any examination of the organization throughout government of the information function, and of the manner in which it is discharged.

SERVICES TO THE PUBLIC

The dissemination of information as a service to the Canadian public is either the sole or principal reason for the existence of some departments and agencies and is an explicit or essential corollary to the operations of others. The purpose may be to develop and propagate a body of knowledge of benefit to the public at large, or to promote efficiency, economy or market opportunities in a particular industry.

One of the most striking examples is the Dominion Bureau of Statistics which has a statutory obligation to publish. The Bureau may, in fact, be regarded in its entirety as a specialized information service. Proper distribution and service to users are not merely routine activities incidental to the preparation of statistics; they are essential to the effective fulfilment of the purposes of the organization. The same may be said of the Meteorological Service of the Department of Transport, whose weather reports are undoubtedly the most widely disseminated of all government information—and the most consistently and widely read.

The extension of knowledge is, of course, the purpose of all scientific research in government. Even where the objective is to facilitate or improve government operations, civil or defence, results are likely to be of wider interest. A project undertaken for defence purposes, for example, may fail in its objective but, nevertheless, establish a scientific principle or engineering technique that can be applied to improve a manufacturing process serving civilian needs. In the application of knowledge, two and two often add up to more than four and, what may appear to be unrelated or insignificant facts may provide the missing links in a development of benefit to the country. It is therefore essential that within reasonable limitations of security there be a free flow of the results of research both to other units of government and to the public at large. There may also be justification for the dissemination of research information that the federal government itself has not produced or sponsored, if this information is not otherwise readily available to potential beneficiaries in Canada.

The need to publish scientific findings is reinforced by the importance attached to publication by scientists themselves. In order to recruit research workers, the government must provide an attractive working milieu, which normally provides opportunities for developing professional recognition by the publication of scientific and technical papers. But such papers may be intelligible only to other scientists; therefore it may often serve a national purpose to have these supplemented by interpretative publication in terms the layman can understand.

These considerations apply generally to all government research, and are well illustrated in the National Research Council, which undertakes or sponsors pure and applied scientific research over a wide field. The principal work of its Information Branch is to act, on a national basis, as a clearing house for all types of scientific and technical information. The Branch consists of a library, a Technical Information Service and a Public Relations Office, with liaison offices in London, England, and Washington, D.C. The library serves as a national science library, accessible to all research workers, and working contacts are maintained and information exchanged with similar libraries around the world. The Technical Information Service studies Canadian and foreign scientific publications, both official and unofficial, adapting and editing whatever may be needed for publication in Canada, and maintains a directory of all Canadian undertakings making use of scientific and technical research information. Contact with the non-technical press is maintained through the Public Relations Office, which is responsible for publicizing the work of the Council in lay terms, facilitating access to people and information by newsmen and specialist writers, and arranging for public, radio and tele-

vision appearances by research workers and other members of the organization.

Because much of the scientific work of the Defence Research Board is governed by security restrictions, its directorate of Scientific Information Service is designed to deal with classified material. However, digests are issued monthly of unclassified accessions to the document collection of the Board, and these are available to other departments and agencies. The Directorate collaborates with a Public Relations Officer, who deals with the press and other non-technical external contacts.

All departments concerned with the development and conservation of resources engage in extensive scientific programmes which, to be of value, must be complemented by effective information services. These departments include Agriculture, Fisheries, Forestry, and Mines and Technical Surveys.

Side by side with scientific research in the resources departments are programmes of consumer education and market promotion which are equally dependent on the dissemination of knowledge and ideas. In the Department of Fisheries, for example, its Information and Consumer Service encourages conservation practices among commercial and sport fishermen; publicizes the need for improved processing and marketing standards; promotes increased consumption of fish and fish products; and seeks to develop in the minds of the public a better understanding of fisheries as a natural resource. Similar aims are pursued by the Information Services of the Department of Agriculture.

A number of other departments undertake programmes designed to promote changes in the business practices and buying habits of the Canadian public or in standards of health and housing. The Information Division of the Department of Labour, for example, spends more than $500,000 a year in advertising and promotion, with its major campaigns being associated with winter works programme and vocational training, in both of which the provinces participate. The Unemployment Insurance Commission is also engaged in promotional activities supporting the winter works programme.

The Department of National Health and Welfare, among other things, co-operates with provincial authorities to protect and improve public health. The propagation of knowledge and sound practice to promote health and hygiene is the responsibility of the Health Services Directorate, and it is this which receives most attention and effort from the Information Services Division of the Department.

The Central Mortgage and Housing Corporation is, by statute, responsible for the promotion of good housing design and construction, and for making

available educational material with respect to all aspect of housing in Canada, including the problems of city growth and renewal. The National Gallery promotes interest in art throughout Canada and in Canadian art abroad.

Thus, in many departments and agencies the provision of information as a service to the public is a primary or statutory responsibility. The purposes are widely assorted but the information activities have several characteristics in common. First, the information task is, in whole or in part, integral to a principal function of the department and may not be treated as an incidental activity. Second, there is no automatic standard by which to determine the quantity of information which should be distributed. Effective control is therefore imperative in order to maintain a proper balance of effort both within the organization and throughout the government.

ENLISTING PUBLIC SUPPORT

In certain situations, operations of government can be assisted and their value enhanced when public co-operation is enlisted. In these cases, a properly directed information programme proves to be an invaluable aid to the economy and efficiency of government.

A perennial operational problem is the economical handling of peak loads either at particular times of day or in particular seasons of the year. A typical example is the flood of work imposed on the Taxation Division of the Department of National Revenue by reason of the April 30th deadline for filing income-tax returns. Since 1950 the Division has undertaken annual advertising and publicity campaigns to encourage early filing. The average cost has been between $30,000 and $40,000 a year and the response has been excellent; more economical work planning has been possible and the number of penalties imposed for late filing has been reduced substantially.

The Post Office faces a daily operational peak around five o'clock in the afternoon, and an overload of staggering dimensions before Christmas. The public can ease these burdens by mailing early in the day every day and posting Christmas mail early in December. Moreover, sorting operations at all times are facilitated when zone numbers form part of the address on mail for the larger cities. The Post Office conducts publicity campaigns to encourage the public to adopt these practices, and savings in direct operational expenditure far exceed the cost of advertising and other publicity.

This is not the total extent of Post Office effort in educating the public in the proper use of postal services. Lectures, posters, pamphlets, television filmstrips and radio broadcasts are all used to induce people to package

and address mail properly. Nevertheless, every year as many as 50,000 parcels are so badly addressed or packed as to make delivery or return equally impossible, and up to $60,000 in cash may be retrieved annually from letters which give no clue to the identity or whereabouts of either addressee or sender.

Public co-operation of a different sort must be sought in staffing the public service. Several departments and agencies find it necessary to stimulate recruiting by general publicity about career opportunities, conditions of work, and other special benefits, quite apart from the direct advertising for specific vacancies.

The Department of National Defence is chief among these, because of the reliance on voluntary enlistment for the Armed Forces. In 1960-61, recruiting expenditures of the three Services approximated $1,300,000, excluding the pay and allowances of those engaged in the work; of this amount, $365,000 was paid for advertising, the balance being spent on the preparation and distribution of promotional material. Recruiting is the responsibility of the Manning Directorate in each Service, and advertising for this purpose is controlled by the Tri-Service Recruiting Advertising Committee. Service public relations activities assist indirectly in the promotion of recruiting, but separate budgets and chains of command are maintained for each function.

The Civil Service Commission does most advertising for staff required by departments. Total promotional expenditures in 1960-61, excluding staff time and printing costs, are recorded as $268,000. In addition, a number of organizations regard the stimulation of interest among potential recruits as an important purpose to be served by their information programmes; this is especially true among departments requiring substantial numbers of scientific and technical personnel.

THE PUBLIC RIGHT TO BE INFORMED

Knowledge of government activities is a public right, and indeed a necessity; but the growing size and diversity of government make the satisfaction of this need more and more difficult. The machinery and processes of government are therefore taking increasingly into account the public demand to be informed.

Responsiveness

At the very least, this requires a responsiveness to requests for information and explanations. First and foremost, the needs of Parliament must be satisfied, both accurately and promptly. This is, of course, of overriding concern

to ministers, who look to their departments for the data to meet the need. Every department furnishes material for replies to parliamentary questions and for ministerial statements both in Parliament and on other public occasions. In addition, with few exceptions, departments and agencies are obliged by law to make a formal report to Parliament each year.

Increasingly, the traditional parliamentary concern with the operations of the public service is being supplemented by manifestations of public interest through other channels, and especially through the media of mass communications. At the direct level, the public is ill-disposed to official procrastination in providing desired information. This is especially applicable to information about taxes. So far as the Royal Commission is concerned, there is too much evidence of frustration encountered by Canadian businessmen seeking information on which trading decisions depend. The classification of goods for import duty may determine the profitability of a venture, and inordinate delays in obtaining advance appraisal for duty may be costly to the businessman.

Publicity

The character and extent of the effort required to provide an adequate response to inquiries can be gauged with reasonable accuracy by the nature and volume of the requests themselves. However, when departments take the initiative in publicizing their operations, the proper limits of their information activity become debatable.

The provision of services to the public entails some obligation to make those services known to the public, even where they are free of charge: the money spent to make them available would be a total loss were they not used. This applies to such establishments as the National Gallery and the various museums maintained by the government. In this connection, the National Museum, in sharp contrast to the other branches of the Department of Northern Affairs and National Resources, appears to be little publicized.

Government publicity may also be required for services of a quite different nature which are available, in cash or in kind, to particular sections of the citizenry, often on a contingent basis. For instance, the benefits available to veterans and their dependants are regulated by several statutes of a complex nature, and the Department of Veterans Affairs is under an obligation to give comprehensive publicity.

In parallel with the need to publicize the rights of the citizen and the services that are available to him, the government is under an obligation to give adequate publicity to the restrictions and obligations imposed on the public by law. The judicial principle that ignorance of the law is no defence does not

absolve the government from the duty of making the law reasonably plain to those affected.

Special considerations apply to the publicity activities of deciding tribunals. As a general rule, these tribunals observe the traditional reticence of the judiciary when out of court. But it is the invariable practice of the higher courts to give a reasoned exposition in support of a judgment, a practice that should properly be followed more consistently by administrative tribunals when the matter is one of public interest. Even more imperative is the need for the reasons for a decision, if published at all, to be released at the same time as the decision itself—not as a defensive afterthought consequent to public criticism. Regulatory tribunals should also be under obligation to publicize policy decisions so that those adversely affected may initiate timely action for remedy.

Beyond these special obligations, as departments go on to publicize their activities more generally, on the basis of newsworthiness, they enter an area of activity which is both ill-defined and controversial.

Every department and agency generates news, some more than others, and most try to work closely with the press and broadcasting media to provide timely and usable material in suitable form. Spot news of national interest does not arise every day, but in some government operations there is an almost continuous flow of routine news of interest to particular occupational groups or geographical areas. Government construction and procurement, for instance, have an effect on the national economy and often have a significant impact on the prosperity of a particular neighbourhood. This local importance is reflected in the volume of parliamentary questions and inquiries from the press and public about the letting and progress of contracts.

There is, however, a distinction—not always easy to draw—between releasing news and "telling the Department's story". What must be borne in mind is that all government activity has at least a modicum of political significance. Consequently, the publicizing of a department may be an excursion into the realm of political controversy.

The danger need not be overstated. It is not a matter of the deliberate misuse of the information process to manipulate public opinion for political purposes. Even if this were tried—and there is no evidence that it has been—the attempt would founder on the independence of the news media and the safeguards inherent in the political process itself. But short of this remote threat of crude and probably self-defeating efforts at political manipulation, government publicity may involve less fundamental but more subtle dangers.

There is no fixed line between exposition and argument, between publicity and propaganda. What is news to one man is propaganda to another. A news

release, pamphlet or film about a missile installation, fall-out shelters, the treatment of offenders or the education of Indian children may be only a bare and even dull recital of fact but still seem argumentative and provocative to some of the public. It would be absurd to conclude that publicity should be given to government activities only by the political leaders, but certain other conclusions may be drawn.

First, general government publicity should be strictly factual and as far as possible objective. Apart from the special areas of promotional information, as defined elsewhere in this chapter, the task of information services is to inform rather than to persuade. Moreover, publicity should take the form of source material rather than be aimed directly at the public. Experienced information officers make a preliminary judgment as to newsworthiness and ensure that publicity material is released in clear and coherent form; but the ultimate decision as to what is news and how it should be presented must be left to the media. Elaborate presentations by film, book or feature and human interest stories may be good publicity on the part of private organizations, but cannot always be regarded as legitimate forms of general publicity by the government.

Second, there should be restraint and balance in volume; even when information is objective in character, sheer volume can transform it into propaganda and an excessive and undiscriminating flood of material defeats its purpose. Aggressive efforts to capture public attention constitute, regardless of intent, attempts to win public support. When this occurs, government information services become active participants in the political process.

Third, an important distinction should be drawn between material which genuinely informs and that which is calculated only to impress; the latter has no place in the information activities of government. It is tempting to issue news stories, pictures or films depicting weapons, laboratories and engineering works as marvels of the age—begging the question of their function and worth.

The philosophy of the public relations man promoting the interests of an industry is that everything which brings the company's name to the attention of the public in a not unfavourable context is advantageous. The very fact of being known is important for business reasons and so the job of publicizing may include a continuing effort to secure maximum publicity. Your Commissioners do not subscribe to the view that similar approaches are permissible in government. Keeping the mass media supplied with a flood of so-called news releases is not a function of a department. What is offered for publication should meet the test of being necessary in the execution of programmes of a department. The public is entitled to expect that public duties are compe-

tently performed, and the taxpayers' money should not be spent to impress people with the quality of performance. Thus the objective of being "well and favourably known", so legitimate in competitive business, forms no part of public information policies of departments.

Your Commissioners are satisfied that the current publicity effort in government is honest and well-intentioned. Whether it is entirely proper is doubtful, but to the question "how much is proper?" no clear answer can be given. Official reticence should not be carried to the point of un-responsiveness and indifference to the public's right to be informed. The vagueness of the other limit has already been indicated.

Whatever may be the proper limit to publicity by any individual organization, the examination made of current activities reveals a lack of balance among the departments and, in particular, between the civilian departments and the Department of National Defence.

The only civil departments having information staffs of some magnitude are those charged with providing information as a service to the public. These departments are more active in the dissemination of general publicity than are those without specific promotional functions; but, in general, their publicity activities are also restrained. The Armed Forces, on the other hand, overshadow the civilian organizations in the size of their information services. In May, 1962, these were manned by 67 Service officers, 67 other ranks and 56 civilians. By way of comparison, the Department of Transport had only five information officers although its operations affect the safety and convenience of all modes of transportation in Canada—by rail, in the air or on the water.

In part, the publicity activities of the Armed Forces are an indirect form of stimulus to recruiting although, as noted above, direct recruiting activities are substantial. It is clear that the principal aim of the Services' information programmes is to win public approbation, and "public relations" is consistently used in preference to "information" in describing both their work and staffs employed.

The activities of the three Service directorates of public relations were assessed by a check of output in a two-week period in November and December 1961. It revealed:

- 68 press releases, including 10 "major stories".
- 7 news-feature releases.
- More than 2,500 photographic prints distributed.
- More than 100 radio, television and film assignments completed, ranging from news clips to 15-minute film and television features.

- More than 700 radio tapes and 500 television tapes produced and distributed.

So far as is known, this particular two-week period was in no way exceptional. In your Commissioners' view, this output is disturbing because of its volume and intensity and also for the high proportion of material offered not as source material but as a finished product to be carried by the media.

We therefore recommend that: The government assess the scale and character of the information activities of the Armed Forces, and especially their heavy reliance on public relations techniques.

3

INFORMATION SERVICES ABROAD

Speaking for Canada is a very different task from speaking to Canada. The general canons of honesty and good taste apply to both, but the government's information activities abroad must pursue aims differing from those of its domestic services. This chapter, then, is concerned with the various information programmes directed to audiences abroad by a number of federal departments. In examining the information activities of the Department of External Affairs, however, the organization and direction of overseas services cannot be treated separately from its activities at home, and the latter are therefore included here.

The authority of the government stops at the boundaries of Canada. Beyond that point Canada can promote its interests only by persuasion and, if it is to play its full part in world affairs and enjoy the trading position essential to Canadian prosperity, it must be heard and understood abroad. Moreover, the continuing growth of Canada depends, to a significant extent, on its ability to attract investment capital and people. It is therefore necessary to project a consistent image of Canada to the world, portraying in proper balance its character, purposes, resources and opportunities.

This need has been recognized by the federal government for some years. In 1956, an Interdepartmental Committee on Information Abroad was established "to consider and make recommendations to the Under-Secretary of State for External Affairs and through him to appropriate departments and agencies on matters concerned with the co-ordination of Canadian information abroad." The membership consisted of representatives of the Departments of

Agriculture, Citizenship and Immigration, External Affairs, Finance, Fisheries, National Defence, Northern Affairs and National Resources, and Trade and Commerce, as well as the Canadian Broadcasting Corporation, the National Film Board, and the National Gallery. It was assumed that the Committee would meet regularly, perhaps monthly, and provision was made for annual meetings of the interested Deputy Ministers to review membership, terms of reference, policies, principles, priorities, and facilities.

The results have been disappointing. The annual meetings of Deputy Ministers failed to materialize, and the Interdepartmental Committee has met infrequently, sometimes not more than three times in a year. The minutes disclose little discussion of principles or high purposes; instead they have centred on such minutiae as the size of flag to be included in a speakers' kit or the lighting of a special display at an exhibition. Few departmental information directors now attend meetings, sending in their places officers at a level which does not permit speaking authoritatively for their departments. "We should be planning the menu, not peeling the potatoes", was the comment of one information director, and his view is widely shared.

The results of this failure are all too evident abroad. In France, for example, three officers of the Department of Citizenship and Immigration, to counteract the lack of knowledge about contemporary Canada, organized a campaign of speaking engagements and film showings throughout the winter of 1961-62, without any assistance from either the External Affairs or Trade and Commerce officials in Paris. Meanwhile, in Western Germany, a Canadian Consul-General was unaware for some time of the existence of a Canadian Immigration Office in his own city. Although a Trade and Commerce officer himself, he learned only from a magazine article of a change in Commercial Counsellors in the Embassy at Bonn. The Consular Officer representing External Affairs in the same city engages in no information work whatsoever, although local mass media include the three largest newspapers and the two largest magazines in Western Germany, as well as the headquarters of a large radio and television network.

Immigration

Except in the United Kingdom, direct canvassing for immigrants is generally prohibited in Europe, but the Department of Citizenship and Immigration has adopted a vigorous indirect approach and has become the most active dispenser of information about Canada throughout Western Europe. Using material prepared by the Information Division of the Department, foreign-service officers of the Immigration Branch make continuous rounds address-

ing any audiences that can be gathered to hear the story of Canada and to see Canadian films. One of them spoke to more than 10,000 people in West Germany during 1960, as well as participating in a number of radio and television programmes. But his travels and engagements often come as a surprise to Canadian officials resident in the cities he visits. His activities are almost a closed book so far as the Embassy in Bonn is concerned, for there is no attempt at co-ordination between the programmes of his department and the information services of the Departments of External Affairs and Trade and Commerce.

Tourism

The Canadian Government Travel Bureau, which is now a division of the Department of Northern Affairs and National Resources, was established in 1934 to encourage tourist travel to Canada, particularly from the United States. Its aim is to provide a means of co-ordinating tourist promotion by provincial governments, municipalities, regional and local travel associations, and the principal transportation companies. Branch offices are maintained in New York, Chicago, and San Francisco, while the embassy and every consulate in the United States has a travel desk for the distribution of material supplied by the Bureau. Quite recently, an office was opened in London, England. In Ottawa, rapid handling of inquiries has been achieved by assembly-line process involving prepackaging of material and the use of automatic equipment. During a year, the Bureau receives more than 700,000 inquiries, but the work is so well organized that coupons clipped from advertisements are answered within twenty-four hours of receipt, while letters requiring more particular attention are usually answered within forty-eight hours. Most of the printed material is modestly designed, and the cost of the current thirty-four publications ranges from 1¢ to 21¢, with print-runs from 7,000 to over 1,300,000. Unfortunately, the distribution of these publications suffers from a failure to differentiate between serious and frivolous inquiries. Consideration might well be given to the use of a broadsheet folder in response to coupon inquiries.

The permanent staff of the Bureau numbered ninety-five at the time of this inquiry. Although there is plenty of promising talent, the weight of experience and proven ability is thinly spread at the top. Even some of the key men have little personal knowledge of Canada beyond the regions in which they have lived. This is a grave handicap when dealing with the travelling public and a systematic programme of practical education should be undertaken. The present policy of rotating staff assigned to the branch offices

should also be reviewed; it takes at least two or three years to become acquainted with the sales territory and to establish the necessary contacts.

Excellent working relationships have been established with provincial and other tourist promotion organizations, but it is to be doubted whether the Bureau is appropriately located in the Department of Northern Affairs and National Resources. This Department is in no sense a promotional agency. The tourist industry, which brought in an estimated $417,000,000 in 1960, (and much more currently) is an important element in Canada's international commerce. Affiliation or merger of the Travel Bureau with a department extensively engaged in promotional activities abroad would have many advantages, including the reduction by one of the number of departments engaged in external information work. It is noted that, in fact, the Travel Bureau originally formed part of the Department of Trade and Commerce.

We therefore recommend that: Responsibility for the administration of the Canadian Government Travel Bureau be transferred from the Minister of Northern Affairs and National Resources to the Minister of Trade and Commerce.

Trade Promotion

The information services of the Department of Trade and Commerce are concentrated in the Trade Publicity Branch, which is part of the Foreign Trade Service. The main objective of this Branch is the promotion of Canadian trade in foreign markets; but it also handles all departmental advertising and the distribution of information about the commercial and economic affairs of the country. Although no attempt is made to compete with other nations on a quantative basis—Australia, for example, spends about four times as much as Canada—direct trade promotion activities and expenditures have increased sharply in recent years, from $216,000 in 1958-59 to over $400,000 in 1961-62.

Emphasis is placed on quality rather than sheer quantity, on skilled writing and imaginative design, with the result that the booklets, folders, posters, counter-cards, and other promotional products achieve consistently high standards. The Foreign Trade Division is responsible for the publication of *Foreign Trade,* a thirty-six page magazine issued twenty-six times a year which is the principal medium for acquainting Canadian businessmen with market opportunities and economic conditions abroad. Annual subscription rates of $2 domestic and $5 foreign have not been changed since 1952. They now bear

no relation to the direct cost of printing and distribution and should be revised.

The number of foreign trade fairs in which the Department participated has risen from nine in 1955 to eighteen in 1961, and thirty are scheduled for 1962. These activities are co-ordinated by the Trade Fairs Abroad Division in accordance with policy laid down by a committee of senior Departmental officers after consultation with Trade Commissioners abroad and trade associations. In September, 1960, the Department organized a general trade mission—the first of a continuing series in which thirty-three are planned by the end of 1962. So far, these missions have been organized on *ad hoc* basis, but a permanent organization is needed if the missions are to be properly briefed and equipped to accomplish their purposes.

International Exhibits

The task of designing, erecting, and dismantling Canadian exhibits at international fairs and exhibitions is the responsibility of the Canadian Government Exhibition Commission, another branch of the Department of Trade and Commerce. In recent years, Canada has annually participated in from twenty to thirty fairs and exhibitions. The annual cost of the Commission has ranged from $700,000 to $1,500,000 in 1961-62 (which includes costs in connection with an all-Canadian trade fair in Accra and Lagos and for participation in the Century 21 Exposition now being held in Seattle). The Commission undertakes work for other departments and agencies as required, and when two or more are concerned, or when the Government of Canada is officially represented, as at Seattle, control rests with the Department of External Affairs. For world fairs and other important international exhibitions, it is usual for a special inter-departmental committee to be established, with membership at the level of assistant deputy minister.

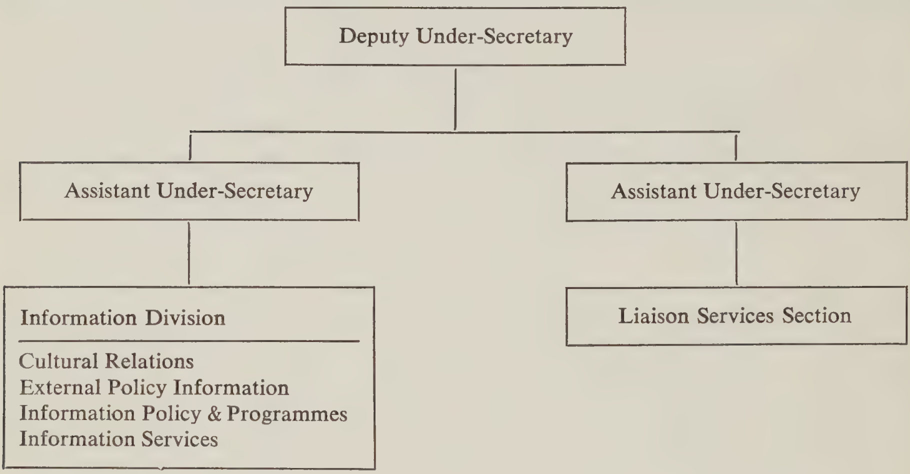
The preparation for participation in an important international exhibition usually extends over a fairly long period, so that continuity of attention is of great importance. Unfortunately, this continuity is nearly always lacking, for the staff of the Information Division of the Department of External Affairs, through which the interdepartmental committee must work, is provided by rotation of foreign service personnel.

ROLE OF THE DEPARTMENT OF EXTERNAL AFFAIRS

In the seventeen years since the Information Division (*see* Chart 1) was established in the Department of External Affairs, there have been fourteen

successive Directors. In one calendar year no fewer than twenty-three staff changes were made. The shortage of information-service experience among the staff can hardly be defended on the ground that greater importance is attached to departmental experience, for at the time of this inquiry officers were being posted to the Division with only one month's experience in the Department. Career foreign-service officers regard service in the Division, if not as a penance, at least as an episode to be endured.

Chart 1—DEPARTMENT OF EXTERNAL AFFAIRS—ORGANIZATION OF INFORMATION SERVICES—SEPTEMBER 1962



Departmental responsibility for the co-ordination of information abroad, under the indifferent guidance of the standing Interdepartmental Committee, is carried by the Policy and Programmes Section of the Information Division. Much of the work of the Section is concerned with the arrangements for international exhibitions and special events at posts abroad, and there is virtually no effort towards general co-ordination on a continuing basis. Responsibility for the general tenor of programme content of the International Broadcasting Service, which should be at the core of the work of co-ordination, does not lie with the Information Division but with the Liaison Services Section, a separate unit which handles domestic information. The heads of the Information Division and Liaison Services Section, which are not even housed in the same building, do not respond to the same Assistant Under-Secretary.

International Broadcasting Service

Apart from this anomaly in the organization of the Department, the arrangements for the International Broadcasting Service are far from satisfactory. The Service is operated as a separate Division by the Canadian Broadcasting Corporation, with funds provided by a specific parliamentary vote. Programmes in eleven languages are directed by short-wave transmission to selected areas in Europe and Africa and to all countries in Latin America for a total of ninety hours a week. A free transcription service, available to radio stations anywhere in the world, is used by some hundreds of broadcasting organizations in other countries. There is no sure way of estimating the size of the audience reached, but the receipt of some six hundred letters a week on average, many of which originate in countries where freedom is restricted, suggests that it is substantial.

The International Service operates through two 50KW short-wave transmitters at Sackville, N.B., and during the past year the areas covered were reduced so that the facilities could be made available part-time for domestic transmission to the far north. These arrangements must be considered as modest. Operations on the scale of the British Broadcasting Corporation or the *Voice of America* are not to be expected, but the Sackville facilities, which were installed in 1945 and have been little modernized, do not bear comparison with, for instance, the four 100KW short-wave transmitters operated by Ghana. It is not for your Commissioners to make any observation on the desirability or necessity for a Canadian international broadcasting service, but if the service is to be continued consideration should be given to the installation of more adequate transmitters and to means of achieving a closer co-ordination with other information activities abroad.

The programmes broadcast on the International Service are by no means confined to news and propaganda, for it is justifiably held that a projected image of Canada should convey a balanced impression of all aspects of Canadian life and culture. Token recognition of this is indicated by the existence of the Cultural Relations Section in the Information Division of the Department of External Affairs. The Section is responsible for liaison on matters of policy with such federal agencies as the National Gallery, the National Research Council, and the Canada Council, and with a bewildering array of provincial and other cultural and educational organizations from coast to coast, as well as for Canadian relations with UNESCO. Understaffed, the Section is so concerned with these multifarious liaison activities that current efforts to project Canadian cultural achievements to other countries can only be described as pitiful.

Activities at Posts Abroad

At every post abroad an officer is assigned—on a part time basis in most cases—to information duties. Full-time information officers of various ranks are assigned to London, Paris, New York and Washington, the United Nations and Tokyo. Positions in Bonn and New Delhi have been authorized but were vacant at the time of survey. Only three of these officers are professionals by training and experience and, although there have been exceptions, normal rotational posting procedures apply. This may be unavoidable for officers with information duties incidental to their other work, whose postings must conform to the general pattern of the Foreign Service. However, where professionally trained information officers are appointed, they should be left for lengthy periods in the same posts. A diplomatic officer, as he moves from one post to another, can easily pick up the traditional political, social and diplomatic associations, but the newly arrived information officer must establish his own contacts and these are often in circles in which the diplomat does not ordinarily move. The most effective information contacts are based on friendship, service and trust, and cannot be established overnight; being strictly personal, they are seldom heritable. The strict application of the rotation system almost invariably ensures total disruption with each change.

The employment of information officers abroad, however, can only achieve its purpose if they are given the support from Ottawa needed in their work. Full-time information officers in major posts are being frustrated by the lack of a continuous and timely flow of background information concerning Canadian affairs. Equally frustrating are the lack of notice of government moves likely to attract attention abroad, and the dearth of any general directives concerning Canadian aims. In these circumstances, the information officers are left to devise their own interpretations and to cope as best they can, in an impromptu manner, with external reactions to Canadian actions and statements.

A logical source of material for information officers abroad is the External Policy Section of the Information Division. However, the work of this Section is specialized and selective and is addressed primarily to erudite audiences, such as the Canadian Institute of International Affairs, the United Nations Association of Canada, and the universities. The principal medium used is the monthly bulletin *External Affairs*. English and French editions are published simultaneously and current circulation totals approximately 41,000.

Most of the printed and mimeographed material distributed by the Department is produced by the Information Services Section. Although this Section includes four positions classified as Editors, it contains no professional

writers—with the result that the necessary journalistic touch is lacking, and most of the mimeographed material commits two cardinal sins of journalistic practice: single-spacing and use of both sides of the paper. As regards content, there is little discrimination in the choice and preparation of material to differing foreign audiences. Valuable advice and assistance might be given by posts abroad but it is rarely sought and seldom volunteered.

Domestic Information

In the domestic information work of the Department, perhaps the most significant aspect is dealt with by Liaison Services, a Section quite separate and distinct from the Information Division. Formed in 1960 by an amalgamation of the former Press Office with the Political Co-ordination Section, its two principal duties are to maintain communications with the Ottawa press corps and to prepare and distribute within the government summaries of classified material received from posts abroad. In its day-to-day relations with newsmen, the unit is restricted to answering inquiries of little importance and distributing copies of speeches and announcements—work that could be done by a trained junior clerk.

The head of Liaison Services has fifteen years experience in External Affairs and is *au courant* with what is going on in the department, but he is permitted to deal with only trivial inquiries. All other are referred to more senior officials who are hard of access. Denied quick and efficient facilities, newsmen rely heavily on informal personal contacts to satisfy their legitimate requirements for comment and interpretative background. The sharp criticisms of the Ottawa press corps deserve attention.

Although the information tasks abroad and at home are of a different order, the attempt to separate the services is illogical. One of the principal purposes of providing information services abroad is to project a national image, but if a different image of Canada is secured by Ottawa correspondents of the foreign media, the latter will prevail.

The information task in Ottawa cannot be discharged adequately by coldly factual releases. There is an urgent need for a focal point where newsmen can get background data and official comment. The departmental officer responsible need not be an experienced pressman, but information experience is clearly desirable and he should have a sympathetic understanding of the problem of newsmen, tempering infinite discretion with ready approachability. Needless to say, he must be well informed on all aspects of policy and operations, sensitive to the nuances of diplomacy, and permitted to use his discretion.

We therefore recommend that: The Information Division and Liaison Services of the Department of External Affairs be re-organized under a senior officer responsible to the Under-Secretary, this officer to serve as chairman of the Interdepartmental Committee on Information Services Abroad with responsibility for its reinvigoration.

4

ORGANIZATION OF THE INFORMATION FUNCTION

The information function is organized in a wide variety of forms throughout the government, varying according to the substance of the information, the techniques used, the purposes to be served, and the segment of the public to whom it is directed.

GENERAL INFORMATION

Except in a handful of organizations—most notably the Armed Forces—the dissemination of general information about the operations of government is a diffuse activity, using little in the way of special techniques and seldom requiring the services of specialists. The initiative rests largely with the interested public, its representatives and the news-gathering organizations by which it is served. The responses to these initiatives may come from any level of the apparatus of government. Where questions of policy are involved, however, ministers generally are the channel of communication.

For obvious reasons, this is universally true of departmental relations with Parliament, which tend to have first call on the attention of ministers. Within departments, the preparation of material for Parliament is invariably of direct concern to the deputy ministers and it is normal practice for the final preparation of such material to be undertaken in the office of the deputy. Where an information unit is closely identified with this office, it is frequently, but not invariably, made responsible. Material for ministerial statements is assembled in much the same manner.

Relations with News Services

Ministers are also keenly interested in relations with the press and other news services, but direct dealings between press and public servants are not uncommon. Because of the possibility of political repercussions, the task of deciding who should be authorized to deal with the press has posed a persistent problem in government.

In an extreme case, a minister might direct that no information be given to the press by any officials of the department without specific approval from his office, but this would be exceptional. In a department or agency of any size, it is impractical to impose an absolute ban on communications with the mass media, but hazards can be reduced by organized care and attention. One reliable safeguard is to use alert and knowledgeable information officers, because newsmen working against deadlines prefer a known source of prompt and reliable answers to their inquiries. Nevertheless, experience is that information officers should not—by over-zealously trying to provide all the answers to all the questions—monopolize relations with the news media. The most useful service that an information officer can render is often to direct newsmen to knowledgeable administrators.

The reticence of many departments in publicizing their activities through the press inhibits the development of groups of specialists for this purpose. The Department of Public Works construction programmes are frequently of intense local interest across Canada, but it had no organized information service until 1954 and the unit then inaugurated has been kept to modest size. In the Department of Defence Production, which is a comparable source of frequent but low-keyed news, press releases and other necessary information services are under the direct supervision of the Deputy Minister.

When relations with the news services are retained in the office of the deputy minister, it is generally good practice to designate the responsible member of his staff by name, even if the duties are too light to justify a full-time appointment. This is a convenience to the press and a safeguard against uncertainties and confusion within the department. For such an appointment, some knowledge of information techniques is desirable but not imperative; of greater importance is an intimate knowledge of policies and operations.

By the same token, a specialized departmental information organization can serve as a focal point for press inquiries only if it has ready access to all sources of information within the department. A group which has press relations as one of its primary responsibilities is likely to be bypassed if, as in the Department of Transport, it works several levels removed from the

deputy minister and must depend on what filters down for knowledge of departmental policies and plans.

Departments and agencies having field operations that attract local interest face a special problems. Some, like the Department of Defence Production, handle all press relations at headquarters with the result that newspapers and radio stations across the country have to rely on the news services for information respecting contracts awarded to local firms. The Department of Public Works, whose regional units are often directly involved in decisions concerning major projects, has no regional information staffs, but its regional officers handle local press inquiries, using the teletype links to headquarters for guidance and assistance if needed. The Department of Transport, faced with a local interest similar to that experienced by Public Works, has designated a senior officer in each regional office to deal with press inquiries.

Until little more than a year ago, it was the tradition of the Royal Canadian Mounted Police to cloak itself in dignified silence; even routine information about crime, prosecutions and mishaps was hard to come by from any source other than the office of the Commissioner. Regulations now permit detachment commanders to release news of local interest, subject only to reasonable safeguards in the interests of security or crime detection. Sub-divisions consult headquarters by teletype when in doubt and report back any news releases, statements and reactions by local news services of more than local interest. These arrangements are working smoothly, with newsmen throughout the country more prone to seek authentication before publishing sensational or controversial stories involving the Royal Canadian Mounted Police.

In keeping with the importance attached to public relations by the Armed Forces, a significant force of specialists is maintained at the various command headquarters throughout Canada, (and in the Air Division in Europe). These account for over forty per cent of the full-time information and public relations staffs of the Services. It is clearly open to question if a genuine need exists for specialist staffs in the Commands on this scale—33 officers, 35 other ranks and 14 civilians.

Relations with the Public at Large

In its day-to-day dealings with the machinery of government, the public at large generates by far the largest and most diffuse demand for information. Every government employee whose work involves meeting the public or answering its inquiries is, in effect, an information agent of the government. In certain departments—especially National Revenue, the Post Office and the Unemployment Insurance Commission—face-to-face encounters between public servants and the public are so important that departmental management

must provide constant guidance and training to ensure staff courtesy and responsiveness.

The most elementary and pervasive kind of information service to the public is that involved in such universal activities as correspondence and the handling of telephone calls. In the report on *Paperwork and Systems Management*, attention is drawn to the need for improvement in methods of dealing with correspondence. Care must be taken to ensure that responses to the general public are consistent with the essential unity of the public service. An official, replying to a complaint from a source outside the government, is writing or speaking for the government of Canada, not merely for his branch.

This point has assumed greater importance with the growth of government and the proliferation of its branches and offices. Public servants should appreciate that often a real problem of a citizen seeking information or service is to ascertain to whom his inquiry or request should be directed. Mis-directed letters should be *re-directed* rather than rejected with a disclaimer of responsibility. Telephone listings should inform rather than confuse and, as organizations grow in size and complexity, there is increasing need for central reference points which can direct calls to the proper office—a need inadequately recognized by too many departments. The difficulties are compounded outside Ottawa, where local directories often list many separate numbers for departments and agencies, or even for separate branches of single departments. In the report on *Telecommunications*, your Commissioners recommend that the Department of Public Works be charged with the co-ordination of government telephone facilities in each locality and it should provide an inquiry number in each of the larger cities.

There is lively curiosity on the part of the public about major construction or engineering operations such as the St. Lawrence Seaway, and atomic energy projects, or 'local points of interest' such as airports, experimental farms, and, in Ottawa, the Royal Canadian Mint. The task of satisfying this curiosity may—as is usually the case—be incidental to the main functions of the public servants responsible, and may sometimes seem, to a busy administrator, a nuisance and a distraction. But it must be recognized that the public has a valid sense of proprietorship. This is recognized, for example, by the Department of Transport in designating regional administrators as information officers and in framing instructions to assist them.

Diffuse as are these activities directed to the public at large, they are of special concern to ministers. The citizen who is dissatisfied with the answers obtained from public servants often appeals, directly or indirectly, to the

minister concerned. Every minister knows that public attitudes towards his department—and hence towards himself and the government of which he is a member—are influenced by the ability of those in his department to deal promptly, honestly and effectively with public requests and complaints. However, because this type of information activity is pervasive and generally unspecialized, the formation of professional information groups to deal with such work is seldom warranted.

PROMOTIONAL ACTIVITIES

Information activities undertaken as a service to the public or to enlist public co-operation for administrative purposes are essentially promotional. They therefore require a degree of initiative, planning and direction which distinguishes them from the more general task of meeting public needs for general information about government policies and operations. Special care has to be taken to identify the element of the public to whom the information is relevant, and to ensure that the methods employed are those best calculated to reach it and evoke the desired response. In effect, information activity of this sort must be treated, for the purpose of organization and control, as an operational task, for which authority and responsibility has to be clearly assigned within the department or agency, and in which special skills must usually be employed.

There is, of necessity, a close relationship between the task of disseminating information and activities—such as agricultural research, weather observations and statistical surveys—which produce the information. Consequently, the two aspects of the work must be closely associated, under common control. But because the information function normally requires specialized experience and skills which are unlikely to be found among those responsible for the fact-finding activities, it is seldom satisfactory to treat the former as merely incidental to the latter. There are exceptions, such as the Meteorological Service, where the work of dissemination can be treated as a routine matter, requiring no specialized information group. But in most cases, the information function has to be organized separately. However, the manner in which this is done, and the relationships between the information groups and the related research organizations show wide variations throughout the government.

Within the Dominion Bureau of Statistics, where this relationship pervades all operations, the information function is centralized in one information service division, which is responsible for stimulating the distribution and widest possible use of the Bureau's product. The information function of the Bureau

—in a sense, its *raison d'être*—has not received the recognition or support it merits, but this cannot be attributed to any defect of organization, although the exclusion of the Director of Information Service from the Bureau's executive committee seems inconsistent with the importance of his function to the work of the Bureau. A similar centralization of information in a specialist group under the agency head exists in the Central Mortgage and Housing Corporation and works effectively.

Among the resources departments, the pattern varies. In the Department of Fisheries, the information function is concentrated in the Information and Consumer Service which works with the other services of the Department and with the Fisheries Research Board. Its programmes are designed to promote conservation and quality control in the industry, greater consumption of fish and better public awareness of the importance of Canadian fisheries resources, and to disseminate market information. In the Department of Agriculture, on the other hand, these tasks have taken a more dispersed pattern. A central information division has general responsibility for the gathering and dissemination of information arising from the research, promotional and regulatory programmes of the Department; however, separate information programmes, in which the Information Division takes little or no part, exist in other branches and divisions. The Scientific Information Section of the Research Branch, although primarily intended to meet the need of scientists engaged in agricultural research, plays a much wider role in disseminating information to the general public about the research programme. The Markets Information and Consumer sections of the Production and Marketing Branch also provide data of a specialized nature, while the Economics Division issues both periodic and special material on agricultural economics.

The Information Division handles some of the material of the other sections but exercises no general oversight. As a result, the Division has become engrossed in the technical aspects of producing information, and needs strengthening and a broadened outlook before it will be competent to advise all branches in the planning of information programmes, and to take over the production and distribution. It was also noted that, for lack of close and continuous relations with top management, the Division plays only a minor role in the general information task of publicizing departmental policies and activities.

Fragmentation of the information function also exists in the Department of Citizenship and Immigration. Owing to the diversity and disparate character of the various programmes of the department, there are virtually no operating contacts binding the four principal branches together and the infor-

mation task is different in each branch. Although the Information Division nominally serves the whole department, about four-fifths of its effort is on behalf of the Immigration Branch, a limited amount of material being produced for the Indian Affairs Branch. The only significant link between the Information Division and the Citizenship Branch involves the supervision of a $40,000 advertising programme for the latter. The Citizenship Branch is itself, in effect, a promotion agency, with its activities closely linked with those of the Citizenship Registration Branch. Since the information function associated with immigration is directed to an entirely different public—the potential immigrants abroad—it has little in common wth the Indian and citizenship programmes and the existing Information Division's activities might be limited to the Immigration Branch.

Centralization of information services has, of course, the advantage that the special skills required can be developed and used more fully, with a corresponding improvement in the career prospects of the specialists involved. But against this must be set the need for information staffs to be associated as closely as possible with those on whom they depend for their material. This is particularly apparent in the Department of National Health and Welfare, where a single Information Service is shared by the two Branches despite the fact that the promotional job to be done lies almost entirely within the realm of the Deputy Minister of Health. Eighty-five percent of the information work is related to the National Health Branch, and the Information Service should be attached to it. Such a move should improve relations between the information group and the health specialists with whom they work. It should also promote a better balance of health education efforts, now sought inadequately by a sub-committee of the Committee of Principal Medical Officers and Consultants of the Health Services Directorate. As it is, such activities as Occupational Health, Mental Health, Child and Maternal Health and Nutrition have technical or administrative personnel devoting all or most of their time to information work, with little consultation with the Department's general information group.

Centralization of information activity within departments seems, in part at least, to have resulted from an attempt to combine in one unit the quite separate functions of providing general information about departmental policies and operations and conducting promotional programmes. In fact, the two may be incompatible except in departments or agencies like the Dominion Bureau of Statistics, where the promotional function is related to virtually the full range of operations. Elsewhere, the need to be closely associated with the deputy minister (and, through him, with the minister) in general information activity conflicts with the need for promotional pro-

grammes to be designed and executed in close association with the relevant operating units. If, as in the Department of Agriculture, the central Information Division fails to develop close relations with the departmental heads, it may be unable to discharge either task adequately.

Field Organization

The need to reach the public—or a particular element of it—may require that promotional activities be carried into the field. In some instances, the knowledge to be disseminated is relevant only to a particular region—like the findings of fisheries research stations or of certain experimental farms and other research establishments of the Department of Agriculture. In recognition of this, the Information Services Division of the Department of Fisheries has field officers on both coasts collaborating closely with Area Directors of the Department and local research stations, and distributing information to the fishing community and industry through the local press, trade papers and radio. The Department of Agriculture has no organized field information services, but most experimental farms and research laboratories throughout the country engage in local information activities.

Even programmes of country-wide relevance may benefit from a field organization which permits more intimate contact with local news media and with the public itself; however, the appointment of field officers has been rare. The most striking instance is provided by the Department of Fisheries, which has established test kitchens across the country employing home economists to devise and test recipes and household methods of preserving fish, and to promote the consumption of fish through local media and to give demonstrations to women's groups. In contrast to this, the corresponding Consumer Section in the Department of Agriculture, although it recognizes regional differences in methods of preparing and serving food, is concentrated in Ottawa, leaving field activity to the provinces.

Where the federal and provincial governments have a common interest in promotional programmes, provincial administrative machinery may provide a valuable alternative to a federal field organization for purposes of distribution. This is particularly evident in the health education programme of the Department of National Health and Welfare. Because public health is primarily a provincial responsibility, health education material prepared by the Information Services Division is distributed almost entirely by provincial health departments, through local medical officers of health and voluntary organizations. Somewhat similarly, provincial agricultural extension workers are used as one channel of distribution for information material prepared by the federal Department of Agriculture.

5

OPERATING METHODS AND STANDARDS

TECHNIQUES

In discharging its information functions, the federal government makes use, in varying degrees, of all available avenues and techniques of communication: press releases, booklets, posters, clip sheets of spot news, advertising, still photographs, radio talks and dramas, brief television film clips, longer films for general use, displays and demonstrations, envelope "stuffers" with pay cheques and family allowance payments, and, more generally, speeches and correspondence. The selection of techniques by any one department depends on a number of factors, among them the objective, the audience to be reached, the urgency of the specific project, the budget available and the experience and skills of the responsible personnel. Some departments and agencies operate on a scale large enough to justify employment of sizeable staffs of specialists; others have limited needs.

The basic skill required, particularly in promotional programmes, involves the preliminary survey of the audience to be reached, the selection of the most appropriate means, and the measurement of results. Obviously, this demands a general familiarity with and understanding of the strengths and weaknesses of the various techniques available. A general deficiency in this regard is, in fact, the principal shortcoming noted in the information services of the government.

News Output

Rather surprisingly, it was found that the output of news material to the press has been restrained; a one-month check in May 1961, of the total gov-

ernment publicity received by one metropolitan daily, one small city daily and a large weekly newspaper revealed that most material from government sources was worth while in content, generally acceptable in form and relatively modest in the volume. It was found, however, that the distribution of material is not as selective as it should be; for example, items of interest only to western farmers were distributed across the country. Distribution lists also exhibited the common weakness of not being kept up-to-date, despite the claim of most departments that they check and revise their lists at least every two years.

Printing

The information services of all departments, except Agriculture, and of most agencies procure all printed matter through the Department of Public Printing and Stationery. The service is generally regarded as satisfactory. Your Commissioners are satisfied that the special needs of government information services will be adequately met by the adoption of the recommendations contained in the report on *Printing and Publishing*.

The Publications Section of the Information Division in the Department of Agriculture operates a printing pool, using offset machines, to provide printing services for the whole Department. Present output is nearly fifteen million impressions a year and the unit appears to be efficiently and economically managed. Following a thorough investigation by the Queen's Printer in 1957, a decision was taken to continue this operation. The matter should be reviewed again in the light of the different conditions that will apply if the printing recommendations of your Commissioners are adopted.

No detailed study was made of the content of government publications. However, even a cursory review of the catalogues of the Queen's Printer discloses the diversity of printed matter: departmental reports both general and on specific projects, regulations and standards affecting the public, hearings and decisions of regulatory boards, pamphlets explaining public entitlement under various programmes, research findings ranging from anthropology to zoology, statistical reports, periodicals dealing with a variety of economic and social subjects or directed to groups of special concern to the government, and a plethora of "self-help" booklets for farmers, businessmen, housewives and most other occupational groups (and many hobbyists). As matters now stand, each department or agency is its own judge of what should be published. This involves not only decisions as to what is relevant to departmental objectives but also judgments of public acceptance. No general criteria exist governing what should be published and no provision is made for guidance concerning probable public interest in and demand for specific items.

Lack of general standards and guidance are also found in relation to the free distribution of departmental publications. The aim of distribution without charge may be entirely praiseworthy: to propagate as widely as possible information of potential value to public health or prosperity. But the means can defeat the end because of the low esteem in which "government handouts" may be held. Excessive distribution without charge of material designed merely to publicize departmental operations is even more objectionable on the grounds already noted by your Commissioners. Departments must therefore exercise proper restraint in distributing publications free of charge, and in doing so, they must be guided by criteria of general applicability throughout the public service. In addition, free lists should be kept under constant review and recipients of free material should be circularized periodically—with automatic deletion from the lists unless evidence of continuing interest is forthcoming.

Based on substantial sampling, the quality of writing, with few exceptions, is satisfactory. In promotional material especially, progress is being made in getting away from the unprepossessing appearance once characteristic of all government printing. Professional skill is being applied effectively to improve artwork, layout and typography. The Department of Trade and Commerce, for example, employs a technical staff of nine for its trade promotion material. But progress has been uneven. The *Labour Gazette* has changed little in the fifty-two years of its existence. It is published by a special unit of the Department of Labour and the transfer of this responsibility to the Information Division of the Department should yield some savings and modernize its format.

Departmental Reports

For some publications, elaborate design and artistic embellishment are inappropriate. The annual reports to Parliament of the various departments now vary widely in form and content. While no estimate can be made of the cost of compiling and editing, the printing cost alone is about $200,000 each year. Sales seldom exceed fifty copies of any one report.

These reports contain useful information, but many are padded with material that is readily available from other sources or is of real interest to but a few specialist readers—generally public officials. There is a marked tendency to repeat the same material year after year in elegantly varied phraseology or with variation only in figures.

More serious than the inclusion of unnecessary material is the growing use of annual reports to gain parliamentary and public support by a deliberate emphasis on the more appealing aspects of departmental operations and

plans. A noteworthy symptom of this development is the general disregard of a Treasury Board circular, dated February 9, 1951, which laid down standards of size and quality for annual reports. It banned the use of photographs, discouraged the use of maps, diagrams, and two-colour printing, and stressed the necessity for pertinence and brevity. An examination of sixty annual reports for the year 1961 disclosed that only seven conform to Treasury Board standards in all respects, while of the others:

- Twenty-four were not of standard size.
- Forty-one were on paper of superior quality or heavier weight, or both.
- The covers of fifty-one were of superior quality or heavier weight, or both.
- The covers of twenty-five were embellished with designs or illustrations some in relief, or were printed in two or more colours.
- Twenty-three contained photographs, half-tone illustrations, or multi-colour maps and diagrams.
- The reports ranged from nine to two hundred and fifty-eight pages, with an average of around sixty pages.

Your Commissioners believe that reports to Parliament should be factual and concise and, if well planned, should not require elaboration or artistic embellishment either in form or content to attract readers.

We therefore recommend that: Steps be taken to appraise the purpose and use of annual reports with a view to improving the general standard, eliminating redundant material and reducing the costs of preparation, editing, printing, and free distribution.

Advertising

The practice of employing advertising agencies is not universal in the public service. The Department of Public Works, with an advertising account of around $200,000 a year, manages satisfactorily without an agency. On the other hand, it has been estimated that advertisements placed directly by the Department of Veterans Affairs reach less than one-third of the veterans in Canada and probably an even smaller proportion of surviving dependants to whom the advertising is addressed. Whether to use an advertising agency or to deal directly with the media is a decision that must be based on the relevant circumstances in each case, but it is to be borne in mind that adver-

tising is a technical business, in which the able specialist can be of real assistance in obtaining for his client the greatest coverage for every dollar spent.

By long established practice, advertising agencies are selected at ministerial level. Many agencies render good service, but some have been less conscientious. While there are no important differences in the cost of advertising purchased through one agency or another, there are often vast differences in value received, depending on the quality of the specialist advice and services provided. The same degree of prudence has to be exercised in selecting an advertising agency as in the procurement of any other service and the process of selection should be repeated at regular intervals—not more than about five years—to keep the selected agency on its creative toes.

Coupled with the existing method of selection is a ceiling on the value of government accounts that may be awarded to any one agency. The present limit of $700,000, for which no parallel is to be found in any other government procurement, entails serious disadvantages. A promotional programme, if it is to achieve maximum effect, should be developed as a whole; there is nothing to commend a policy that obliges the Government Travel Bureau, for example, to employ three separate advertising agencies simultaneously to handle a budget of approximately $1,700,000. In a recent instance, an agency giving satisfactory service to a department secured the more lucrative account of a Crown corporation and abandoned the departmental account for the sole reason that the combined total would have exceeded the $700,000 limit.

We therefore recommend that: Advertising accounts be awarded on the basis of competitive proposals in the manner of other government contracts.

The considerations that govern the employment of agencies to handle government advertising accounts cannot be extended, without reservations, to the use of outside firms in public relations activities. Your Commissioners have laid some stress in this report on the distinction that must be drawn between proper and improper publicity, and on the inappropriateness, in government information services, of some basic concepts of industrial public relations. The employment of outside firms to manage government publicity campaigns that are not based on paid advertising can seldom be justified. An arrangement of this kind may be the best way to deal with a particular non-recurrent publicity campaign, especially if the matter is of great urgency or if the department concerned has only a small information unit; but it is not compatible with departmental responsibility for continuing promotional

programmes, still less for the delegated management of departmental information services from day to day.

We therefore recommend that: Outside public relations agencies be employed only to supplement, not as substitutes for, government information service units.

Radio and Television

Apart from their role as news services, radio and television serve as effective media for promotional and educational purposes. Radio is used extensively by a number of departments and agencies and a significant number of government-produced programmes, in the form of talks and dramas, are accepted on their merits by broadcasters who are also generous in donating time for departmental campaigns of national significance. While a small beginning has been made in the provision of short films for use on television, this medium has been used relatively little because of cost. However, some notable successes have been achieved with the broadcasting of films sponsored by departments and produced by the National Film Board. Another technique, the use of which might be extended with advantage, is the distribution of 'fillers'—scripts running from one to three minutes accompanied by still photographs for use on television.

In the course of this inquiry, some criticism of the Canadian Broadcasting Corporation was encountered, on the grounds that it is less co-operative than private broadcasters in using government-prepared material. However, investigation did not substantiate the critics. Generally the complaint was based on the mistaken view that the Corporation should act as a common service agency at the beck and call of the federal departments and agencies. In fact, the Corporation almost invariably either matches or excels its competitors in its public service broadcasting.

The conclusion that can be drawn is that some departments and agencies are more in need than others of expert counsel and guidance in their approach to radio and television. Technically, and having regard to its main source of revenue, the Canadian Broadcasting Corporation is clearly in the best position to meet this need, and there is no evidence to suggest that it has been unwilling to do so hitherto. There is evidence, however, that many departments and agencies are unaware of this or uncertain whom to approach. It would therefore be helpful if the Corporation were to nominate an officer, not necessarily on a full-time basis, to direct departments and agencies to the best source of advice and guidance within the Corporation, having regard to the particular nature of the problem in each case.

Film Services

Despite the fact that in the past three decades, the government-owned National Film Board has built up a world-wide reputation in film-making, other federal departments and agencies continue to show little interest in the value and impact of films as a means of public information. In 1960-61, production of films for all departments and agencies, other than the Department of National Defence, cost less than $250,000. The Departments of Agriculture and National Health and Welfare, both of which have major educational or proportional programmes, each spent less than $25,000. The Department of National Defence spent $380,000 on films—but ninety per cent of this represented the cost of training films.

By statute, departments require the authority of the National Film Board before undertaking film projects. Normally, the Board itself produces the films, but it may, if requested by the sponsoring department, contract out the work to commercial producers. It is seldom asked to do so. Some departments produce films and still photographs for their own use—again, the Department of National Defence in particular.

The still photograph division of the National Film Board serves as a centralized government photographic service. Its library has more than 100,000 active prints in stock, with almost as many in its archives. Its newspaper photo service provides a regular means by which newsworthy photographs may reach the daily and weekly press. Some departments also maintain libraries of photographs relating to their operations.

The work of the National Film Board as a central film service for federal departments is, of course, overshadowed by its role as an information organization in its own right. In Canada, more than 10,000 community groups and associations and 30,000 persons take an active part in its film distribution, apart from commercial distribution channels. During 1960-61 its screenings in Canada totalled 420,000. Canadian telecasts of its films numbered 5,400.

Outside Canada, the Film Board has become one of the country's most effective information agencies. More than 50,000 prints of its films are in circulation in seventy-five countries, in English, French and thirty-three other languages. It is estimated that each year its films reach an audience abroad approaching 500 million people. In 1960-61, there were 5,568 telecasts of its films in forty countries, and included in its distribution programme in 1960 were 107 privately-produced Canadian films from seventy-one different sponsors.

The need for specialized information staffs varies from department to department according to the nature of the information function, the range of techniques appropriate to it, and the scale of activities. As has been noted, departments with only a general and diffuse information task, of limited extent, have relatively little need for specialists. As the volume of general information work increases, full-time information officers may become a necessary adjunct to management, but such officers must be chosen primarily for their knowledge of the department and sensitivity to the political implications of its work.

The principal need for specialists is encountered in those information programmes which are undertaken as a service to the public. Even here there may be exceptions like the Meteorological Service, where the actual preparation and distribution of data are so routine as to require no specialist personnel. Generally, however, where promotional or educational programmes are to be devised, making effective use of a variety of techniques, planning and execution should be entrusted to trained and experienced information officers and technicians.

The prime essential is a knowledge of the potentialities and limitations of techniques; actual proficiency in all techniques is rarely needed because this expertise can be found in organizations which make it their business. Individual departments or branches undertaking information programmes can rarely hope to compete with the National Film Board, Canadian Broadcasting Corporation, Queen's Printer or Canadian Government Exhibition Commission in the mastery of photography and film making, broadcasting, print design or displays and exhibits; most of them recognize this and act accordingly.

The qualifications required in information personnel include both familiarity with the material to be publicized and an understanding of the forms and techniques of presentation. A choice may have to be made between an administrator with a flair for communications and a professional publicist with the versatility needed to understand and interpret widely assorted material. The best results are likely to be achieved by a judicious mixture of professionals and publicity-conscious administrators.

Classification and Remuneration

Men with the requisite qualifications are not numerous, and the government must compete with private employers for their services. The remuneration and opportunities for promotion in the civil service have not, in recent years,

attracted the people needed. In the course of the inquiry, for example, it was found that:

- A recent open competition for a director of one information service failed to produce an eligible candidate and approval was reluctantly given for the upgrading of the position.
- In another department two successive competitions failed to attract suitable information officers.
- In April, 1961, the Information Services Division of the Department of National Health and Welfare was at full numerical strength for the first time in nine years.
- Out of thirty-five positions in the Trade Publicity Branch of the Department of Trade and Commerce, five were vacant in November, 1961.
- The post of head of the Publicity Section of the Government Travel Bureau was vacant for more than six months.
- In another information service, two senior positions for editors, out of a total of four, had been vacant for eight months.
- The Press and Publicity Section of the Dominion Bureau of Statistics had been without a head almost continuously for nineteen months.

This is not an exhaustive listing.

Job specifications are often undesirably restrictive, especially in the higher grades where the notional distinctions between editing, information work, and public relations become progressively unrealistic. Too rigid an insistence on specific background and experience often has the effect of eliminating generally suitable candidates. In most departments and agencies, vacancies in information units remain unfilled for protracted periods while the rituals of classification and reclassification proceed like a stately saraband, with little logic evident in the results.

It is not uncommon to find, in the same unit, comparable editorial work being done by people classified as Editors, Information Officers, Technical Officers, and Administrative Officers. In a recent instance, a department insisted on an amendment to a job specification making a university degree a mandatory qualification; approval was belatedly secured, but the vacancies were advertised at the same salary as before. Often, in desperation, resort is had to evasion and subterfuge. The normal top classification for a departmental information director is Information Officer 7, but in some departments and agencies higher remuneration is provided by assigning the responsibility

to an Administrative Officer or a Technical Officer of a higher grade. The artificiality of existing fine distinctions in classification is perhaps best illustrated by the fact that the information officer of the Civil Service Commission itself is not an Information Officer but a Civil Service Commission Officer.

Many of the problems described are but particular examples of common deficiencies in personnel administration in the public service, and the recommendations in the report on *Personnel Management* apply with as much force in the field of information services as elsewhere. The existing situation is not only unsatisfactory but harmful, and remedial measures should be undertaken without delay.

We therefore recommend that: Reconsideration be given to the classification structure and scales of remuneration related to information services throughout the Civil Service.

Training

The rationalization of classifications and salaries will facilitate the recruitment and retention of experienced information officers from outside the public service, but there will be an increasing need for guidance in adapting their attitudes, methods and techniques to the special requirements and standards of government information services. Conversely, the public servant with only administrative experience who transfers to information work is in need of training to familiarize him with the expertise of his new vocation. While the information service in each department and agency must develop and use the methods best suited to its own purpose, the basic principles are common to all, and a skilfully planned training programme would have the additional merit of promoting a more uniform approach to the special information problems of the public service.

At present, there are no organized training courses covering all aspects of information services, either in the government or indeed anywhere in Canada. Two Canadian universities have schools of journalism where some aspects of information work are taught, but neither deals exclusively with the subject. A high proportion of the public relations officers of the three Armed Forces have attended, by invitation, the intensive ten-week information courses conducted by the United States Army at Fort Slocum, N.Y., and the results are reflected in improved relations with the mass media and a more effective operation in all respects. But for those departments and agencies charged with promotional tasks, this kind of training is not available. Much could be done

in the way of specialized practical training within individual government organization, or by organized courses available to the public service at large. Some haphazard but praiseworthy efforts in this direction were observed, but in too many instances staff shortages leave little opportunity for any activity that is not of immediate urgency.

An interesting experiment has recently been undertaken by the Post Office to supplement the education and training of information officers serving in the field. Headquarters supervision of information services outside Ottawa is now assigned to field men serving in rotation for a period of six months each. This arrangement has the dual merit of widening the area of conformity in public relations practices and ensuring that the special problems of the field services are given due attention and weight in the formulation of policies and plans at headquarters. Should this scheme stand up over a reasonable period of time, it may serve as a model for other departments and agencies with regional information or public relations operations.

The written guidance afforded to information officers in the public service is scanty. Only a few departments and agencies have introduced anything in the way of a manual and those that exist are mostly incomplete and of indifferent value. The only comprehensive manual in the federal government is that of the Department of National Defence, and this, unfortunately reflects an emphasis on public relations techniques which your Commissioners consider misplaced. Steps should be taken to produce a comprehensive manual of government information policy and practice, for the training and guidance of information officers throughout the public service and for the enlightenment of senior administrators.

BUDGETING AND ACCOUNTS

The present form of the Estimates and Public Accounts gives no indication of the true cost of information services. That part of the cost that seems to be identifiable often includes other kinds of activity, and some information programmes are concealed under headings which afford no clue. It is rare to encounter any evidence of planning in terms of broad policies, long-range objectives, and the resources necessary to their achievement, or even of any attempt to relate available staff and resources to specific targets in the year ahead. The more general rule is improvisation in response to unforeseen requirements and day-to-day pressures—a way of life that is extravagant and wasteful.

Adoption of the recommendations in the report on *Financial Management* will require that publicity costs of government programmes be included as

part of the programme budgets. This is not done under the present classification by objects of expenditure. Nor, for that matter, can the total cost of information services now be measured. Services purchased from external services are reflected in the standard object headed “Exhibits, Advertising, Films, Broadcasting and Displays”. But the cost of projects or programmes produced within the government service are distributed over the full range of such other objects of expenditure as salaries, professional and special services, publication and office stationery. The recommended form of estimates and accounts would allocate information costs to the programmes to which they relate and would identify as a separate item only that information activity of a general nature where apportionment would be inappropriate or arbitrary.

6

INFORMATION SERVICES IN FRENCH AND THE BUREAU FOR TRANSLATIONS

Canada is now a country of many tongues, with the *British North America Act* declaring English and French the official languages. Departments of government may, in projecting their programmes, aim at groups of varying linguistic origins, but will do so generally in English and French, with copy most frequently originating in English. To maintain standards of textual equivalence requires a staff of translators who are skilful in converting an English text into a version which commands the respect and interest of French readers and *vice versa*. Where it does not, the intended message goes unread. This need is met, in the main, by the Bureau for Translations, the duties and functions of which are declared by statute to be:

> 3. (1) ...to collaborate with and act for all departments of the Public Service, and both Houses of Parliament of Canada, and all bureaus, branches, commissions, and agencies created or appointed by Act of Parliament, or by the Governor in Council, in making and revising all translations from one language into another of all departmental and other reports, documents, debates, bills, acts, proceedings and correspondence.

This section of the Act is less sweeping than it is taken to be in some departments and agencies. It does not say, for example, that all the material described *must* be translated from English into French or *vice versa*. To the extent that the public service can be made more bilingual, the need for translation of correspondence and internal working papers should diminish.

Translation is not and can never be a purely mechanical process which can be undertaken by anyone with a working knowledge of both languages. It must, if it is to be effective, be a paraphrase which takes account of idiom

as well as syntax. The professional translator of informational material must have a broad cultural background to enable him to reach beyond comparable idiom and seek equivalent image. To arrive at the best equivalent of a particular slogan or forceful metaphor may take as many hours as several hundred words of routine translation. Scientific and technical material presents problems that take longer to solve than those of an ordinary text.

Too little attention is paid to these factors in assessing the performance of translators; some general quantitative standards may be desirable but, for example, a rigid insistence on an output of 2,000 words a day must necessarily have an adverse effect on quality, particularly in those special areas where high quality is essential if the material is to achieve its purpose. For these reasons, the practice of circulating periodical statements of personal performance in terms of the number of words translated, without regard to quality or technical difficulty, does not commend itself to your Commissioners.

In Canada, translation between English and French presents peculiar problems. In each language many words have acquired connotations unknown in the country of origin. French in Canada has absorbed different anglicisms from those adopted in France, as well as many American words and terms, and no good French-American dictionary is available. English usage in Canada has accepted American meanings of some words but adheres to the British meanings of others.

One result is that the work of the Translation Bureau is criticized by French-speaking Canadians on diametrically opposite grounds. Cultured people complain, often with good reason, that translations are too literal, instantly recognizable as hybrids between English syntax and French words. Others deplore a literary standard above and beyond the workaday comprehension of those to whom the material is addressed, particularly in the technical field, where the English or American vocabulary is often better understood than that of France by French-speaking Canadians. To offset this, the Bureau operates a Terminology Service which co-operates with similar bodies in other countries and with international organizations. The glossaries and terminological bulletins published by the Bureau are intended and accepted as a national service, and are in great demand by the French-language press of Canada.

The Translation Bureau also undertakes translations into and from other languages, as may be required by departments and agencies for their special purposes. For the Department of Trade and Commerce, for instance, promotional material is translated into German, Dutch, Flemish, Afrikaans, Italian, Spanish, Portuguese, Swedish, Czech, Polish, and Japanese—this list is not,

of course, exhaustive as regards the public service as a whole. The Department of Trade and Commerce makes a practice of sending these translations to its Trade Commissioners in the countries concerned, to be checked by native linguists, and the work of the Bureau stands up well under this kind of testing. The whole output of the Bureau, in all languages and for all purposes, is of the order of 100 million words a year.

To deal with the great body of general translation, the Bureau seconds translators who serve more or less permanently with particular departments and agencies. The assignments are made by relating, as far as possible, academic and cultural qualifications and background to the type of work to be done, but it is often nearly impossible to recruit translators qualified in specific scientific disciplines. Satisfaction with the service thus afforded is not universal and independent translation services have been set up for some purposes by the National Research Council, the Royal Canadian Mounted Police, the Central Mortgage and Housing Corporation, the Canadian Broadcasting Corporation, and other agencies, with salaries at a level in some instances above what the Bureau is permitted to offer for similar work. Regardless of whether these operations contravene the intent of the *Translation Bureau Act*, it is clearly undesirable that the Bureau should be subjected to competition from other federal agencies in recruiting and retaining competent translators.

When the Bureau for Translations was established in 1934, the salaries offered to translators, although not excessive, were generally more attractive than those offered either by the press or by commerce and industry, but conditions have so changed, particularly since the war, that this is no longer the case. Approximately ten per cent of the two hundred and twenty-six positions for translators in the Bureau are generally vacant, and during the past year over thirty translators left to take better paid or more congenial employment elsewhere. Recruiting from outside the service is handicapped by the difficulty of securing consent to appointments at salaries above $5,000 a year, although specialized qualifications may be pertinent and the need urgent. As a result, the Bureau is seldom in a position to compete with others for experienced and highly qualified translators. The Government of Canada, under a constitutional obligation to be as articulate in French as in English, can ill afford not to be competitive with private enterprise in recruiting and retaining competent translators.

We therefore recommend that: Consideration be given to a review of the classification, remuneration, and career opportunities for translators throughout the public service.

In addition, attention should be given to the special need for scientists for translation duties. A possible solution would be the establishment of temporary appointments for a term of, say, six months or a year, open to young scientists with Master's degrees and carrying salaries comparable to those being offered at the starting level in their own professions. For general translators, too, the door should be opened for recruitment of persons with special aptitude or proven experience, at grades higher than at present. But the existing problem will not be solved by financial inducements only; attention should be directed to providing better career opportunities and working conditions. A substantial amount of translation work is not of immediate urgency and can be done anywhere. Some effort could be made to take this work to the potential translators who, for one reason or another, cannot be attracted to work in Ottawa. Consideration might well be given to the establishment of a subsidiary translation unit to be located in the Province of Quebec, not necessarily in the City of Montreal.

There is abundant evidence that the two hundred and twenty-six positions for translators presently authorized for the Bureau would be insufficient even if there were no vacancies. In the last seven years only nineteen additional positions have been authorized, and while the numbers assigned to some departments and agencies have increased in line with the volume of work, in others there have been no additional assignments for ten years or more, although in some cases workloads have doubled. Staff shortages have an adverse effect on the quality of translations and limit the number of publications that appear in French. They have also caused inordinate delays. Most departments and agencies make some attempt to achieve simultaneous news releases in French and English, but exceptions are sufficiently frequent to arouse violent criticism from representatives of the French press. It is therefore of practical significance that such complaints are rare when news releases are dealt with by bilingual information officers. For material that is not of 'spot news' urgency, the time lapse between release of English and French versions may range from three to twelve months.

Some delays are unavoidable, particularly where the material to be translated necessarily employs an abstruse technical vocabulary, or where maps, diagrams, or other illustrations must be engraved or otherwise produced before the French version can be adapted to the layout. These considerations do not apply, however, to a monthly publication like the *Labour Gazette*, the French edition of which now normally appears from three to five weeks after the English, although both used to be issued almost simultaneously. The French edition of *The Postmark*, the staff magazine of the Post Office Department, is sometimes as much as three months behind the English

edition—a circumstance that can hardly serve to promote *esprit de corps.* Only seventeen pages of the 1959-60 Annual Report of the Fisheries Research Board—which ran to one hundred and ninety-six pages in all—were published simultaneously in French and English, and even this gesture delayed the publication of the report for five months. The Annual Report of the Department of Fisheries has appeared in French as long as eighteen months after its English counterpart, while the French edition of the Army *History of the War* was released more than two years after the English edition.

When the material to be published is of topical interest or importance, delays of this order may render the belated French version useless. It was noted, for example, that research reports of the Department of Agriculture—generally of equal interest to French and English agricultural periodicals and often having special application to current problems—may appear in French two or three years after the English edition, even when they have been prepared by experimental farms or research stations located in the Province of Quebec for the express purpose of investigating local problems. During the survey the Department of Trade and Commerce issued a publication entitled *Market Opportunities Abroad.* The Chambre de Commerce de Montreal, acting for similar French-speaking bodies, immediately applied for fifty copies in French but it was five weeks before they were available. In the meantime, a summary in French was prepared by the Chambre and distributed to all interested parties. As a result, over two thousand copies of the belated official French version remained in stock in Ottawa.

The present unsatisfactory situation is not wholly attributable to shortage of staff, nor is the Translation Bureau primarily to blame. The Bureau, as a service agency, has no control over what is to be translated nor when the English text will be made available. Under the *Translation Bureau Act*:

> 3. (2) It is the duty of all departments of the Public Service and all such branches, commissions, and agencies as aforesaid, to collaborate with the Bureau in carrying into effect the provisions of this Act and regulations.

This obligation is too often ignored and translators assigned to departments are seldom, if ever, kept informed of work in preparation. Moreover, publication in French sometimes cannot proceed because the necessary budgetary provision was not made, or translation may be undertaken only because of the unexpected popularity of the English edition. An example is the physical fitness booklet, 5BX, produced by the Royal Canadian Air Force. This unexpectedly had enormous sales in Canada and abroad. The original plan called for an English version only, so about two years lapsed before copies in French were available. Those in charge of information services should recognize the importance of advance planning and facilitate simultaneous publication by

arranging for concurrent translation while material is in preparation. An excellent example of what can be achieved in this way is the recent publication by the National Capital Commission of *The Queen's Choice,* by Wilfred Eggleston, which was translated into French by instalments as each chapter was completed by the author.

Were it not for the fact that much of the current information material appears only in English, the delays in publishing French versions would be greater than they are. In 1960-61, the Queen's Printer published 3,586 texts in English, but only 866 in French. Of 515 current publications of the Dominion Bureau of Statistics, only about a quarter are available in French, although the proportion by volume is higher than this by reason of the French editions of such weighty items as the *Canada Year Book* and the monthly *Statistical Review.*

No assessment of potential reader interest is valid unless it is related to equivalent material simultaneously published. Where this is done, experience is that the demand for French and English editions is in close proportion to the French-speaking and English-speaking population, even when the subject is specialized or of a technical nature. The Department of Northern Affairs and National Resources maintains a mailing-list of those desiring copies of all information published on gas and oil resource developments, which is issued simultaneously in both languages. Four hundred recipients asked for the release in English and 265 in French. Publication in both languages should be regarded as not an extravagance but as an essential service to the Canadian public.

Analysis of the present unsatisfactory state of affairs is apt to be obscured by misapprehensions of emotional origin and a tendency to draw unjustifiable general conclusions from particular circumstances. There is little evidence, and none that is incontrovertible, of any discrimination against French-speaking information officers, either in recruitment or promotion. The fact is that the shortage of experienced bilingual information officers, both inside and outside the public service, is even more acute than the shortage of competent translators. It is therefore necessary that attention also be directed to the government's need for bilingual information officers in the review, recommended earlier in this report, of the classification structure and scales of remuneration for information officers in general. At present, there is only one departmental director of information services who is bilingual; some departments and agencies, either more assiduous or luckier than others, have bilingual information officers at other levels.

In almost every department and agency there is an urgent need that more

information originate in French and for better co-ordination of French and English material in advance of publication.

We therefore recommend that:

1 Steps be taken to attract more bilingual information officers to the public service.

2 In every department and agency, full bilingualism be made a mandatory qualification for at least one of the top positions in the information service unit.

Maintenance of the Bureau for Translations is clearly desirable for a variety of purposes: to ensure uniformity of standards and a professional approach to the translation of parliamentary papers and records, and formal and legal documents of all kinds; to provide a common service for translation involving foreign languages; and to provide the broadest possible career basis for translators. Existing arrangements whereby Bureau personnel work in the various departments and agencies should be continued, and extended, in order to permit the most flexible use of translators, adjusting their postings to constantly shifting needs.

At the same time, the recommendations put forward in this report and elsewhere should lessen the burden of routine translation borne by the Bureau. First, greater bilingualism among information officers would permit the preparation of material by information services in either language, each version being adapted to the language group to which it is directed. In addition the general increase in bilingualism in the administrative ranks, which was urged in the report on *Personnel Management,* would reduce the need for translation into English of correspondence received from French Canada and the subsequent translation into French of draft replies.

7

CO-ORDINATION OF INFORMATION SERVICES

The picture that emerges of public information services in the government is one of a general blur of diffuse activity, with growing clusters of organization. Central planning, direction and co-ordination are lacking. Scanning this picture, it is hard to realize that not so long ago the organized information services in the Government of Canada were highly centralized in both planning and execution. In preparing to put itself on a war footing, the federal government in 1939 established a public information committee of the Cabinet. This was followed almost immediately by the establishment of a Directorate of Public Information in November 1939, later succeeded by the Wartime Information Board. Of necessity, wartime staffs were recruited outside the public service—largely from the publishing, radio and advertising fields and from universities.

As special departments and agencies were created and old-time departments drawn more directly into the war effort, they also set up information services. Almost inevitably, there was competition for public attention and over-lapping of effort. This was greatly reduced by the formation, under the chairmanship of the Deputy Minister of National War Services, of an interdepartmental co-ordination committee, which devised an orderly, non-competitive scheduling of news releases and advertisements. Through reciprocal disclosure of plans, arrangements were made between departments having overlapping interests that one attend to the interests of all on a given topic. Production and distribution services of the central group were frequently used by all with measurable reductions in costs.

At the end of the war, this co-ordinating machinery was dismantled, together with the Wartime Information Board itself. Since then, the departmental and agency services have developed and operated largely independently one of the other.

With one notable exception, the fragmentation of information services has much in its favour. Strong internal loyalties in departments and agencies are often powerful factors in the successful pursuit of objectives and should not be discouraged. Moreover, for maximum effect, promotional activities are best planned and directed in close association with the research and other programmes to which they relate. The exception is that noted in Chapter 3—Information Services Abroad—and your Commissioners would reiterate here the importance they attach to the recommendation for improved co-ordination of such services.

In domestic information services there is not the same need that information services of the government speak with one voice. Declarations and explanations of government policy should not, of course, be contradictory, but the guarantee of this lies not in the unification of information services but in the effective co-ordination of policy itself. In a government which rests on public opinion, fragmentation of the information function may, in fact, be reassuring. In promotional programmes, an element of rivalry may be natural and proper. There is nothing incongruous in the Department of Agriculture promoting meat while the Department of Fisheries promotes fish consumption.

For maximum effect, however, a concerting of efforts is desirable. For example, the present over-lapping of publicity by the Department of Labour and the Unemployment Insurance Commission in support of the winter works programme weakens impact. Dispersal of effort was also noted in information activities relating to labour relations, between the Department of Labour and the Labour-Management Co-operation Committee. In the nutritional field, good co-operation exists between the Consumer Section of the Department of Agriculture and the Nutrition Division of the Department of National Health and Welfare, but the catalogue of the Queen's Printer lists a variety of publications by the latter department and also by the Armed Forces, all dealing with the planning and preparation of meals. This indicates a lack of co-ordination both in programme effort and in publishing. An example of what is desirable is the *Medical Services Journal, Canada*. It is edited and produced by the Department of Veterans Affairs, but managed by an editorial board representative of that department, National Defence and National Health and Welfare and financed jointly by the three. In the advertising programmes of various departments, little attention has been given to the

potential of advertising space available in the many government publications that enjoy a good circulation founded on reader demand. Thus, many a good opportunity may be going to waste.

A special problem exists in areas of joint federal and provincial concern, or where provincial programmes are supported and reinforced by federal activities. In this regard, both strengths and weaknesses can be seen. Travel and tourism publicity is well co-ordinated, and health education efforts are concerted through biennial conferences with continuing consultation in the intervening period. In agricultural matters, however, only a start has been made; senior information and extension officers of the federal and provincial governments met for the first time in 1961 to discuss common problems and possible co-operative arrangements. The area of potential duplication in agriculture and related matters is growing. Having regard to provincial responsibilities for resources generally, the federal departments concerned with conservation, production, marketing and use are under an obligation to seek co-operative arrangements. The means of federal-provincial co-ordination cannot be developed by a central agency in the federal government; consequently, the responsibility for identifying needs and initiating joint action rests with the departments.

In general, consultation among information services is rare and joint programmes are rarer still—an information unit of a department seldom looks over its own fence. Your Commissioners do not believe in compulsion to achieve co-operation because this may seriously undermine departmental initiative. But co-ordination can be facilitated and promoted by central encouragement and guidance. Somewhere in government there should be a lookout from which the broad sweep of the information landscape can be viewed with reasonable detachment and the perspective kept in focus.

Co-ordinating arrangements within the federal government can, moreover, contribute to the more effective use of the specialized resources employed by the various departments and agencies. Existing arrangements which assign almost complete responsibility for film-making to the National Film Board and for printing to the Queen's Printer meet part of this need. In passing it is noted that while the Queen's Printer is not vested with any statutory power to control what is printed, the approval of the National Film Board is required for any departmental film projects. What is needed is a general source of guidance and assistance—which, in fact, is the role of the Film Board. With respect to printing, the growing expertise and advisory services of the Queen's Printer in matters of design, artwork and typography is to be commended, but more is necessary. General criteria are needed governing the content of publications programmes, and departments require expert advice

on the probable extent of public interest in proposed publications and, especially, the probable sales market at prices which will recover costs of publication, if not of preparation.

In this connection, attention is drawn to the recommendation of your Commissioners, in their report on *Printing and Publishing*, that management of the two functions indicated in that title be separated, and a Queen's Publisher be established. The aim is to distinguish between the mechanical and the creative. The weight and prestige attaching to the office of Queen's Publisher should command the respect of administrators and the professional loyalty of information officers throughout the public service, and enable the Queen's Publisher to serve as the focal point needed for the co-ordination of information services. Among the functions which should be assigned to the Queen's Publisher are:

- To identify areas of over-lapping concern to information services in the various departments and agencies and foster consultation between and joint action by the relevant organizations.
- To set standards of quality in the design and production of government publications of all kinds.
- To provide leadership in the development of professional standards throughout the information services of the government, and, in consultation with senior information officers and other specialized agencies, to prepare standard manuals for general use and determine the need for common training facilities and courses.
- To assist in providing career opportunities for information officers, and to act as expert counsel to the departments and agencies and to the Personnel Division of the Treasury Board on matters of classification and remuneration.
- To provide guidance to departments and agencies concerning the potential markets for publications in each language.
- To advise ministers and assist the Treasury Board in appraising the information-service element of departmental programmes and in assessing performance.

We therefore recommend that: 1 The responsibilities attaching to the office of Queen's Publisher, as proposed in the report on *Printing and Publishing,* include the provision of expert counsel to departments and agencies, and to the

Treasury Board, in matters relating to the operation of government information services, other than those aspects for which such agencies as the National Film Board or Canadian Government Exhibition Commission may be given a special responsibility.

2 A small committee of senior information officers drawn from the departments and agencies be formed, under the chairmanship of the Queen's Publisher, to review and advise on co-ordination of public information policy and activity throughout the public service.

SERVICES FOR THE PUBLIC

SERVICES
FOR THE PUBLIC

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THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

CONTENTS

GENERAL INTRODUCTION

The reports contained in the following series are all concerned with specific services which citizens and residents of Canada (and, sometimes, of other countries) receive as individuals from the federal government. In effect, these reports—and those in Volume 4, "Special Areas of Administration"—represent a distinct break from the approach that characterized the first two volumes, "Management of the Public Service" and "Supporting Services for Government".

In the thirteen preceding reports, your Commissioners have dealt with the general requirements of administration in the federal government. In this generalized treatment, the essential question has been: what are the needs of efficient, economical and effective administration common to all parts of the public service?

From the outset of the inquiry, however, your Commissioners recognized that an examination of the general aspects or functions of management and its supporting services would leave unanswered many questions of organization and administrative practice. The functional approach had obvious advantages: it permitted the use of fewer, smaller and highly specialized investigating groups, and was likely to be speedier; it also permitted a more unified analysis of government administration and, at the same time, allowed comparisons to be drawn more readily between the different ways in which various departments and agencies met like problems. In view of these advantages, the major research effort was directed into such functional studies, with the results submitted in the first thirteen reports. But it is clearly

necessary to take account of the diversity of government activities and to ask: how do the various operations differ in purpose and character, and what bearing do these differences have on the choice of organizational forms and administrative practices?

The ultimate aim of all government activity is the satisfaction of public wants and the promotion or safeguarding of public interests at home and abroad. Historically, the principal tasks involved have been the maintenance of public order and national security, and the conduct of international relations. Your Commissioners have not investigated the traditional instruments for the preservation of public order—the judiciary and police—except to the extent that general aspects of administration were examined in the Royal Canadian Mounted Police. However, special problems encountered in the administration of national defence and the conduct of external relations—both of which have been profoundly affected by events of recent decades—are considered in the fourth volume of reports.

Since Confederation, the federal government has been increasingly engaged in new tasks: defining goals for the economic, social and, to a lesser extent, the cultural development of the country, and devising means by which those goals can be attained. The result has been the emergence, in Canada as elsewhere, of "the public service state". The process has been gradual and largely unplanned, with a high degree of experimentation in and improvisation of organizational forms and administrative practices. And because Canada has a federal constitution, designed at a time when most of this growth could not be foreseen, it has been a process in which the federal and provincial governments alike have participated, with indistinct and shifting lines separating their respective interests and activities.

The reports that follow do not pretend to examine exhaustively the many services being provided to the Canadian public by the federal government. The large services operated on commercial lines—Canadian National Railways, Trans-Canada Air Lines, and Canadian Overseas Telecommunications Corporation—are again excluded. The Unemployment Insurance Commission and National Employment Service, being the subject of inquiry by another body, are also ignored in this volume. The minor services identified in the course of the present inquiry are too numerous to permit individual treatment, and are dealt with generally in a single report on *Miscellaneous Services*. But the activities encompassed in the following reports—*Education Services; Health Services; Lending, Guaranteeing and Insuring Activities; The Post Office;* and, as mentioned, *Miscellaneous Services*—are sufficiently representative to disclose the variety of the means by which public wants are met

and the impact which federalism makes on the development of the services rendered by the Government of Canada.

MODES OF SERVICE

The classic form of service to the public is exemplified by the Post Office: enjoying a monopoly (excluding particular services such as parcel post, money orders and the savings bank), directed by a minister of the Crown and operated by civil servants within the general forms and rules governing the departments of government. But many alternative ways of satisfying public wants have been devised in recent decades, and the federal government can choose from a variety of modes of service.

This element of choice is evident in most of the following reports—for example, in the choice to be made between direct lending operations conducted through a country-wide administrative apparatus, or the pursuit of the same ends by offering appropriate guarantees or financial inducements to non-governmental institutions which already possess the necesary administrative machinery and are engaged in activities closely resembling or related to the services contemplated by the government. In some instances, the services in question are already provided by private undertakings, and the interest of the government lies essentially in reducing their cost to users, or facilitating their wider use, by the payment of subsidies to users or suppliers. In other cases again, where the federal and provincial governments have identical or complementary interests, services may be provided by joint action, with a pooling of funds and administrative machinery—and sometimes with the added participation of municipal or even non-governmental bodies, particularly in health and welfare services.

Each mode of service gives rise to different organizational and administrative needs within the federal government. In addition, of course, no two modes produce exactly the same results or give the same degree of satisfaction to the public. Consequently, the choice cannot rest solely—or even primarily, in most cases—on the administrative implications of the various courses of action available. But these administrative implications should not be ignored in the planning of government services.

The record of most advanced countries in recent decades shows a general tendency for the role of central governments in satisfying public wants to become increasingly comprehensive—embracing more and more aspects of the lives of more and more people—and, at the same time, increasingly indirect in its impact. The old and new patterns can be seen at various points in the following reports—within, for example, the operations of the National

Health Branch as described in the report on *Health Services.* On the one hand, this Branch provides direct service to a selected group, under the Indian and Northern Health Services, employing its own hospitals, clinics, medical staff, supply organization and all the accompanying overhead—with capital and current expenditures (in 1960-61) of $23 million. On the other hand, under the Hospital Insurance and Diagnostic Services programme, the National Health Branch contributed $189 million in 1960-61 toward the costs of hospital treatment for virtually the entire Canadian population, with an administrative effort that was but a fraction of that required for the Indian and Northern Health Services.

Direct provision of services by the federal government raises general questions concerning costs and the degree to which they should be recovered from the recipients of the services. Under existing methods of accounting, the true cost of operations is frequently obscured by the exclusion of capital and overhead items and supporting services supplied without charge by other agencies. In addition, the general practice of absorbing departmental revenues into the Consolidated Revenue Fund rather than applying them to meet associated costs tends to weaken administrative concern with the relationship between costs and revenues. Recommendations put forward by your Commissioners in the report on *Financial Management* would correct these weaknesses. There remains, however, a further need to establish uniform policies governing the recovery of costs from the recipients of services and defining when and to what extent services should be provided at less than cost. This need is encountered in a number of the following reports, and your Commissioners' general conclusions are set out in the report on *Miscellaneous Services.*

In addition to reducing the burden of administration imposed on the federal government, the less direct means of providing services may often provide a greater measure of flexibility in federal programmes. Programmes involving only the payment of grants and subsidies can be more readily modified or terminated at fairly short notice than can those for which special facilities and organizations have been created by the federal government. Grants and subsidies should not be varied capriciously, and changes must be planned and executed in a manner which permits necessary adjustments in the external machinery which will be affected—a need which appears to be inadequately recognized in some of the programmes examined. But the problem of modification or adaptation is unquestionably greater in federal organizations designed to provide a specific service directly to the public or to a particular group.

Moreover, there is a clear need to review services at frequent intervals in order to determine, in the light of changing conditions, whether the means being employed are the best available. The balance of factors favouring a particular course may change for many reasons. The public need may disappear, or so diminish as to render the original mode of service inappropriate—as, for example, in the treatment of tuberculosis among Indians. The development of more comprehensive services may eliminate or reduce the special needs of a particular group—for example, mariners or veterans. Or, the development of alternative services by other bodies—provincial and municipal governments or private agencies—may place more effective machinery within reach of the federal authorities. If federal programmes are to respond to changes such as these, the periodic review of services must look behind the mode to the intent. Only when this is done can the continuing need for a particular service, or for service rendered by a particular mode, be judged.

Some of the considerations entering into the choice of modes are not unlike those examined in relation to the "Make or Buy" question in Volume 2, "Supporting Services for Government". And, other things being equal, your Commissioners favour those modes which assign to other agencies the actual provision of a service to the public, leaving to the federal government the definition of goals and standards and the provision of financial support or other incentives. In this way, the day-to-day control of the service can be brought closer to the beneficiaries and made more responsive to their needs. At the same time, the operational burdens of the federal government can be minimized, leaving it free to concentrate on the tasks which only it can discharge. In addition, the growth of the public service can be checked, and the plurality of other institutions—public and private—serving the Canadian people can be strengthened, not only in the resources available to them but also in experience and skill.

Your Commissioners recognize that, in proposing greater devolution of the service function by the federal government, they are pre-supposing the existence of honest, competent and responsive organizations to which the administration of services may safely be entrusted. However, as the federal government becomes increasingly involved in the definition of economic and social goals and standards, no other assumption seems tenable. The alternative is a monolithic society in which services become more and more concentrated in the hands of the central government and all other organizations atrophy for lack of function or resource. Your Commissioners do not believe the latter course to be either desirable or necessary. Nor do they believe that

the tendency toward a more comprehensive role for government in the economic and social life of the country can be arrested; but as this process continues, the importance of the other organizations by which the public is served should be enhanced rather than diminished.

FEDERAL-PROVINCIAL CO-OPERATION IN JOINT AND ALLIED SERVICES

As the federal government has assumed new responsibilities it has become involved in a growing range of services which complement provincial activities or which, because of the constitutional division of powers, require provincial co-operation in their execution. Concurrently, the range of provincial services has shown a comparable growth, with the two-fold effect of, first, multiplying the points of intersecting interest and, second, bringing into existence new administrative resources, provincial and municipal, of increasing size, diversity and skill.

A review of the findings of the Royal Commission on Dominion-Provincial Relations, before World War II, discloses that the number and variety of intergovernmental contacts have grown phenomenally in recent decades. At least sixteen of the principal federal departments and almost as many other agencies now have some close and significant concern with matters in which provincial governments have common or related interests.

The machinery of provincial (and municipal) government lies, of course, wholly outside your Commissioners' terms of reference. However, in examining the organization and operations of the federal government in this growing range of matters in which federal and provincial governments have joint or allied interests, the development of provincial machinery cannot be ignored. The existence today of energetic and competent public services in the provinces enlarges the opportunities for administrative co-operation between the two senior echelons of government and requires a re-examination of many federal services to determine whether adequate account has been taken of provincial developments. In recognition of this, the Commission undertook a general review* of federal-provincial co-operation in joint and allied services. From this review there emerged a number of conclusions of general relevance to a wide range of federal services to the public.

It is important to recognize that the basic relationship between the federal and provincial governments cannot be one of principal and agent. Constitu-

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*Under the direction of Eric Hardy, of Eric Hardy Consulting Services, Toronto, and Professor François-Albert Angers, L.SC.COMM., Ecole des Hautes Etudes Commerciales, Montreal, assisted by C. N. Rowse, B.A., B.ED., B.SC. (ECON.) M.A., Director of the Budget, Province of Manitoba, Winnipeg, Thomas J. Plunkett, M.A., Municipal Affairs Consultant, Montreal, and Jacques LaRivière, L.SC., POL., Montreal.

tionally, the two are of equal status, and each is accountable to its own electorate. Consequently, the relationship between them must be one of equality, based on mutual recognition of the authority and responsibility proper to each and mutual respect for each other's administrative competence.

Each fresh discovery of a convergence of federal and provincial interests in recent years has produced, with few exceptions, some degree of co-operation. Among the services of concern to your Commissioners, including a number of those discussed in the following reports, four general kinds or degrees of co-operation were identified:

- Consultation, leading to a concerting of plans and operations.
- Joint programmes in which costs and administrative responsibilities are apportioned.
- Delegation of functions by one government to another, by executive agreement.
- The contracting of services by one government from another.

Arrangements of these kinds, with variations and modifications, will be particularly evident in the ensuing reports on *Education Services* and *Health Services,* but many other programmes are similarly affected—in welfare, labour, services to agriculture, fisheries, forestry, and other resource industries, in housing, transportation and many other areas.

Consultation

No complete listing exists of the federal-provincial conferences and committees of more than a temporary nature dealing with intergovernmental relations. The composition of such a list would vary depending on whether particular bodies were classified as committees or sub-committees, but separate listing would be warranted for at least fifty. Most of these are of comparatively recent origin; the older ones, for the most part, have become increasingly active in recent years. In size, breadth of interest and degree of activity, they vary widely, each having evolved in response to a specific need and without the guidance of any general principles or plan. There is, for example, no general co-ordinating body in the welfare field comparable to the Dominion Council of Health, to which reference is made in the report on *Health Services.*

However, the formal machinery of federal-provincial committees and conferences represents only a part of the consultative process. Of equal—perhaps greater—importance is the continual consultation by telephone, correspondence and visits. Moreover, as patterns of intergovernmental co-

operation become established by the formal machinery, the need for frequent conferences should diminish. This was noted, for example, in the case of a federal-provincial conference which has been held annually for a number of years. The federal officer responsible for organizing the 1961 conference found it difficult to prepare an agenda until he hit upon the happy notion of a broad review of the whole field which had been covered intensively, in piece-meal fashion, at previous conferences. While there may be value in such retrospective sessions at rare intervals, regularity of conferences should not become a fetish when co-operative arrangements have been well established.

Consultation, of course, is only of value when it leads to a concerting of action. This may take a number of forms, some of which are noted in the report on *Public Information Services:* the pooling of efforts in the promotion of tourist travel and the distribution of federal public health material through provincial and local channels. Knowledge of each other's programmes and intentions—in research, for example, or the compilation of statistics—can eliminate wasteful duplication or divergence of effort. However, the most distinctive form of co-operation is the joint service in which costs and administrative functions are shared by the federal and provincial governments.

Conditional Grants

The initiative in developing cost-sharing programmes has come predominantly, although not exclusively, from the federal government. And almost invariably, federal participation is dependent upon provincial undertakings to administer the programmes in accordance with agreed conditions. The importance of such arrangements to both levels of government may be gauged from the fact that in 1961-62 the federal government provided over $500 million in conditional grants, a ten-fold increase from 1945.

Canada is by no means alone in this growing resort to conditional grants; similar arrangements have become increasingly prevalent in many countries. There have been criticisms in Canada and elsewhere that the grants tend to distort the budgets of recipient governments by creating rigidities and causing over-emphasis of grant-supported activities; and that they tend to undermine the federal system by forcing provincial governments to choose between accepting federal direction in matters of provincial jurisdiction or denying to provincial residents any share of federal funds derived, in part, from their own taxes. Defenders of the grants see nothing sinister or objectionable in them on principle; both the federal and provincial governments may have legitimate and reconcilable interests in a wide range of matters, and the

conditional grants provide a means of making common cause.

Your Commissioners do not take sides in this debate. But the prevalence of conditional grant programmes cannot be ignored in any study of federal administration. The kind of conditions attached to federal grants, and the actions taken by federal departments in ensuring that the conditions are met, are of relevance not only to the attitude of provincial recipients but also to the efficiency and economy of the federal government.

Examination of the current grants discloses striking variations in the conditions attaching to them and in the role of the federal authorities in the administration of the joint programmes. Moreover, it is abundantly clear that the differences among conditional grant programmes are the result more of historical accident than of any clear and consistent principles.

In many cases the variations in conditions follow logically from differences in the objects pursued. It is, for example, to be expected that the federal authorities should be more concerned with the quality of work performed on the Trans-Canada Highway than with the construction standards of provincial or municipal works receiving federal aid under the Winter Works programme. The federal object in the first case is to secure the construction of a transcontinental highway of defined standard; in the second it is concerned only with influencing the timing of construction activity.

Other variations in the field of construction, however, are less easily explained. The Department of Public Works, for example, has administrative responsibility for both the Trans-Canada Highway and Roads to Resources programmes. In both cases, it exercises an item-by-item control over payments to provinces within the limits of approved costs. In the Trans-Canada Highway programme, individual items may be overspent by as much as ten per cent without recourse to the Treasury Board for authority, provided the authorized total amount is not exceeded. In the Roads to Resources programme, on the other hand, no leeway is permitted on individual items without reference to the Treasury Board. Even greater contrast is provided by two conditional grant programmes administered by the Department of Northern Affairs and National Resources, for the construction of camp grounds and picnic areas along the Trans-Canada Highway, and as Winter Works. In both cases, control is exercised on a project rather than an item-by-item basis. The costs—and hence the grants—involved in highway construction programmes are, of course, much greater than those associated with camp grounds and picnic sites, but the practice of the Department of Northern Affairs at least raises questions about the degree to which itemized control is exercised by Public Works—over culverts, for example.

The procedures required by the federal government in the administration of grants for the support of blind and disabled persons provide another example of inexplicable variation. Both programmes are administered by the Department of National Health and Welfare, with the federal contribution to the blind persons' programme amounting to seventy-five per cent of the cost compared with fifty per cent under the disabled persons' scheme. Despite the similarity in aims, the two programmes employ totally different techniques for the medical review and approval of applications, the difference being incomprehensible either in terms of the variation in the federal share of costs or on any other basis. The one feature common to the two programmes is that the procedures for review of applications seem unnecessarily cumbersome.

Moreover, the haphazard differences in conditions and procedure are matched by variations in the stringency with which conditions are enforced. At one extreme, a rigid refusal by the federal government to contribute to the purchase of land for highway purposes can produce absurdities. For example, it may refuse to share in the purchase of a $15,000 farm whose intersection by a highway would cut off the barns and water supply from the pastures, but be willing to split the expense of a $50,000 underpass to keep the farm intact. A similar situation arises where the federal government refuses to share in the outright purchase of a building but will contribute toward the greater cost of relocating it.

Other examples can be cited of contrasting laxity in the enforcement of conditions. Several may be found in the administration of national health grants. With certain stated exceptions, the agreements provide that costs of administrative personnel employed by a provincial health department to implement the grant programme will not be shared; in fact, it is reported that a significant number of such persons are paid from health grant funds. Under the same programme, the regulations state that no more than eighty per cent of the amount allotted under each grant item can be committed annually for continuing services; but one province proposed, in 1962-63, to devote ninety-three per cent of the mental health grant to continuing services, and to apply federal funds for tuberculosis control on the same basis.

The existence of anomalies such as the foregoing points to a need for a comprehensive and continuing review of conditional grant programmes. This review can serve several objects: the introduction of order and consistency, based on clear and cogent principles, and the elimination of any unnecessary or distasteful burdens imposed on provincial and municipal authorities.

In addition, systematic attention should be given to the avoidance of processes of control and review which pointlessly duplicate provincial activity. In the administration of national health grants, for example, in many cases the use of federal medical consultants in evaluating projects duplicates work already done by provincial consultants. Progress has been made in recent years towards reduction of detailed federal auditing of provincial cost records and greater reliance on the effectiveness of provincial procedures. The federal government cannot, of course, divest itself of responsibility or escape its accountability to Parliament for the manner in which its funds are spent under conditional grant programmes, but greater acceptance of the adequacy of provincial control and review processes seems possible.

Administration Delegation and Contract Services

Executive action on the part of the federal and provincial governments has permitted the administrative machinery of one to be used for the purposes of the other in a variety of ways. These arrangements may take a very simple form—as, for example, in the appointment of certain federal Indian agents to serve additionally as provincial welfare officers. At the other extreme, one of the most highly developed co-operative arrangements can be seen in the regulation of fisheries, where certain federal regulations are not only administered by the provinces but are prepared by the federal government to meet provincial wishes. Or the machinery of one government may be employed, under contract, to serve the purposes of the other, the outstanding example being the employment of the Royal Canadian Mounted Police to provide provincial and local police services in eight provinces and more than sixty municipalities.

Of particular relevance to the present inquiry—and particularly to the reports on *Education Services* and *Health Services*—are those situations in which the federal government has assumed responsibilities towards specific groups for services normally considered to be provincial or local matters. In the view of your Commissioners, a clear distinction must be drawn between the responsibility for ensuring that such special needs are met and the actual rendering of the service. The first may be inescapably federal; the second, however, may more properly be entrusted to provincial and local authorities on mutually acceptable terms.

It is recognized that, in certain circumstances, the actual provision of such services must be undertaken by the federal government—because of the isolation of the group to be served, or because a special need of short or uncertain duration would require facilities and staffs out of all proportion

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to the other requirements of the community. But the findings of your Commissioners on education and health services suggest a need for more systematic attention to this question, not merely when federal services are initiated but at regular intervals thereafter, as the further development of provincial and local services may eliminate the justification for direct federal action.

The Need for Systematic Review

The observations in the foregoing pages should not be permitted to obscure the very significant development of federal-provincial co-operation in the past two decades. As the activities of both levels of government have grown in scale and diversity, there has been a general recognition of the need for co-operation and general avoidance of duplication in services. The lack of order and system in the arrangements developed may itself be viewed as reflecting the initiative and freedom to experiment, enjoyed—and exploited—by the federal departments.

There is, nonetheless, a clear need for a more systematic approach to federal-provincial co-operation, to identify areas in which development has lagged and stimulate corrective measures, to remove anomalies and, on the basis of the extensive experience of recent years, to evolve general principles to govern future initiatives by the federal departments. What is required, in the federal government, is a central organization concerned with all aspects of federal-provincial relations and assisting ministers in the development of policy and in the review of administrative arrangements for co-operation.

The nucleus of such a group already exists in the Department of Finance. But the Federal-Provincial Relations Division in this Department has been developed primarily as a permanent conference secretariat concerned in the main with financial aspects of intergovernmental relations. Given enlarged terms of reference and the necessary additional staff, this group could be developed to serve the needs which have been pointed out in the foregoing pages:

- To review federal-provincial consultative and co-operative arrangements generally.
- To stimulate federal initiatives in areas where existing arrangements appear inadequate.
- To formulate general principles for the removal of existing anomalies and to guide future federal initiatives.
- To advise departments and the Treasury Board on the possible use of provincial administrative machinery to meet federal needs.

In putting forward these proposals, your Commissioners make no evaluation of the various administrative relationships established between the federal and provincial governments. Because these arrangements frequently give rise to questions of public policy, any such evaluation clearly lies beyond your Commissioners' terms of reference—as does the question of the boundaries of federal and provincial jurisdiction as defined by constitutional enactments and judicial decisions.

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14 EDUCATION SERVICES

SERVICES FOR THE PUBLIC

REPORT 14: EDUCATION SERVICES

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Your Commissioners, in acknowledging the assistance and advice received, dissociate all the above-named persons from any findings and conclusions appearing in this report; for these, your Commissioners assume full responsibility.

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1

INTRODUCTION

Under the *British North America Act,* general responsibility for education in Canada is assigned to the provinces, yet the federal government has been engaged on a rapidly increasing scale in recent years in providing direct education services to children and adults in schools of its own. These activities result from obligations to particular classes of the population for which the federal government considers it has a special responsibility. Further substantial expenditures are represented by a variety of grants and allowances related to education (including research) which are made to provinces, municipalities and school districts, or to universities and individuals.

The extent of federal involvement, accounting for ten per cent of all public money spent on education in Canada, is shown in Table 1 which is a summary of annual expenditures by main classes, based on the latest information

Table 1—SUMMARY OF FEDERAL EXPENDITURE ON EDUCATION

Federal schools and colleges		$ 53,955,000
Aid to research in universities		15,865,000
Educational information services		1,960,000
Total direct costs		$ 71,780,000
Grants and allowances to:		
Provinces	$48,450,000	
Municipal and School authority	13,280,000	
Universities	27,360,000	
Individuals	7,465,000	96,555,000
Total		$ 168,335,000

Table 2—FEDERAL EDUCATION SERVICES AND EXPENDITURES

Department	Services Provided	Federal Schools	Grants and Other Subsidies: Direct	Grants and Other Subsidies: In Aid of Research	Special Services	Dept'l Totals
		$	$	$	$	$
Agriculture	Aid of Research to Universities			159,780		169,780
	Two Schools in Isolated Posts	10,000				
CBC	School Broadcast Department				1,029,970	1,029,970
Citizenship and Immigration	Language and Citizenship Classes		335,273			
	Indian Schools	27,746,819				28,082,092
Civil Service Commission	159 on Educational Leave (Service Departments)		517,000			517,000
Defence Research Board	Extramural Research by Universities			1,690,000		1,690,000
Dom. Bureau of Statistics	Education Division				164,000	164,000
External Affairs	External Aid Office		1,782,400			1,782,400
Finance	Common School Funds (Ontario-Quebec)		133,888			
	Grants to Universities		27,243,000			
	Educational Portion of Municipal Grants		11,708,000			
	Educational Allowances for Children—Overseas		104,472			
	Dependents on Crown Lands		52,919			39,242,279
Fisheries	Payment for Universities' Work		115,000			115,000
Forestry	Grants in Aid of Research			11,600		11,600
Justice	Academic-Vocational Training of Inmates	530,108				
	RCMP University Training		98,490			628,598
Labour	Tech.-Vocational Training Assistance Act		47,108,700			47,108,700
Mines and Technical Surveys	Grants in aid of research			75,000		75,000

National Defence	Civilian Instructors for Training		859,494			
	Dental Officers Subsidization Plan		204,033			
	Medical Officers Subsidization Plan		107,705			
	Directorate of Naval Education	671,200				
	ROTP—Services Colleges	7,708,867				
	—Canadian Universities		1,515,852			
	Education of Dependents—Overseas	2,448,809				
	—Canada	7,291,085	1,518,492			
	Training of Service Personnel in Universities		1,443,143			
	National Defence College	603,000				24,371,680
National Film Board	Educational Films and Filmstrips				500,000	500,000
National Gallery	Literature and Lecture Tours				9,000	9,000
Public Archives	Educational Service				50,000	50,000
National Health and Welfare	Consultant Services in Education		14,000			
	Grants in aid of research			3,000,000		3,014,000
National Research Council	Grants in Aid of research—Medical			2,307,467		
	—Science			8,169,564		10,477,031
	(including NATO, Fisheries and Atomic Energy Board)					
Northern Affairs	Federal Schools in N.W.T.	6,944,392				6,944,392
Public Printing	Publications Educational Distribution				208,000	208,000
Public Works	C.M.H.C. University Assistance			62,248		62,248
Transport	Grants and Training		1,012,310			1,012,310
Veterans Affairs	Correspondence Courses		32,010			
	Children of War Dead Education		442,700			
	University Training of Veterans		206,179			
	Medical Research & Education			389,000		1,069,889
	TOTAL	53,954,280	96,555,060	15,864,659	1,960,970	168,334,967

Note: Canada Council not included.

available, largely for the fiscal year 1960-61. A more detailed breakdown is given in Table 2 which shows that more than twenty federal departments and agencies are involved in expenditures on education.

In this report your Commissioners examine the management of these programmes, with special emphasis on those providing direct education services to particular groups of children and adults. These include:

- Indians in all parts of Canada.
- Residents of the Yukon Territory and the Northwest Territories, and Eskimos in Quebec and Manitoba.
- Children of Armed Services personnel, both in Canada and abroad.

For these classes, federal programmes provide primary and secondary education, with a limited amount of adult education. In addition, supplementary secondary education, technical training and university-level instruction are provided for members of the Armed Services and civilian employees of the government. Special programmes are designed to assist civil servants posted abroad, children whose fathers died in uniform, immigrants, and inmates of penitentiaries.

Financial support of education in general, and of educational institutions, is provided mainly through the following programmes:

- Research grants to universities and university students made by the National Research Council, the Defence Research Board, and other agencies.
- Grants to provinces to assist vocational training.
- Grants to universities, based proportionately on provincial populations.
- Grants to municipalities and school boards in lieu of local taxes on federal property.

The range and diversity of these activities are broad indeed, and the large number of departments involved has been noted. Because of this fragmentation, the total expenditures of the federal government in this field are not ordinarily calculated. No machinery exists to co-ordinate federal educational activities, and perhaps none is needed. But the rate of increase in the costs of direct programmes since World War II suggests that continuing vigilance may be required to avoid unwarranted extensions of federal responsibility.

Throughout this report, attention is drawn to various features of federal programmes that overlap or duplicate established provincial facilities. Some of these are unavoidable, at least for the present, but your Commissioners take the view that, wherever possible, existing provincial or local facilities should be employed to meet federal educational needs.

2

FEDERAL SCHOOLS FOR CHILDREN

From Inuvik in the northwestern Arctic, across the Canadian provinces, and to Sardinia in the Mediterranean, there are federal government schools manned by Canadian teachers, with a student population which approximated 84,000 children in 1960-61. Three federal departments are engaged:

	Number of Pupils
Department of Citizenship and Immigration— Indian Children	43,100
Department of National Defence— Children of Service Personnel	36,000
Department of Northern Affairs and National Resources— Children of Northern Residents, excluding those in the Yukon Territory	4,900

In 1960-61 there were 3,469 teachers employed on terms similar to those in the Canadian school system, but extra costs are incurred in paying transportation and living allowances to those posted to isolated areas or abroad. Curricula are similar to those of provincial schools, and secondary education carries through to preparation for Canadian university entrance.

INDIAN SCHOOLS

The *Indian Act* confers on the responsible minister the power, subject to the concurrence of the Governor in Council, to operate schools or, alternatively, to arrange for the education of Indian children in schools of provincial or territorial governments or of religious and charitable organizations. Use is

made of all these facilities in varying degree. Of the 43,100 Indian children whose education is supervised by the Indian Affairs Branch of the Department of Citizenship and Immigration, approximately 32,000 are being taught in 1,200 elementary and 22 secondary classrooms operated by the Education Division of the Branch. Approximately 11,000 other Indian children attend provincial, territorial, or private schools at federal expense.

It is not generally appreciated that over ninety per cent of the Indian school population lives south of the 55th Parallel—a line running slightly north of Prince Rupert and Edmonton, passing through Flin Flon on the Saskatchewan-Manitoba border, separating James Bay from Hudson Bay, and approaching Schefferville on the Quebec-Labrador border. Most of these children live on the 2,226 Indian reserves within the provinces and, were they not wards of the federal government, their education would be the responsibility of the provinces. With the single exception of a school at Carcross in the Yukon, the school system of the Indian Affairs Branch is located entirely within the provinces. Throughout the northern territories, extensive use is made of the schools of the Department of Northern Affairs and National Resources and private institutions, but the Indian Affairs Branch provides living accommodation for Indian children in two hostels at Whitehorse and one in connection with the school at Carcross.

Within the provinces, as a result of a broad dispersal of the Indian school population and limited transportation facilities, about one-third of all children attending Indian schools are provided with board and lodging. The operation of residential facilities and the provision of transportation, often by air, between the hostels and the children's homes call for a substantial outlay, and the cost of the residential pupil is more than double that of a day-school child. A distribution, by grades, of Indian pupils attending the various classes of educational institutions is given in Table 3.

Educational Policy

Half a century ago there were fewer than 90,000 Indians in Canada, and their numbers were declining. Largely as a result of a dramatic improvement in health, the decline was arrested; already the Indian population has doubled in less than fifty years and is continuing to grow. This fact underlies the current educational policy of the Indian Affairs Branch. The doubling of Branch expenditure on education between 1956 and 1961 reflects the serious effort which is being made to equip Indian children for a fuller part in Canadian life. Looking to the integration of Indian pupils in non-Indian schools, wherever possible, educational programmes have been modelled on the curricula of the provinces. At present, the majority of Indian children

Table 3—ANALYSIS OF ENROLMENT OF INDIAN PUPILS 1960-61

Classification of Pupils	*Distribution by Grades*														*Tech-nical*	*Pro-fes-sional*	*Not Graded*	*Total*
	K	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*				
At Day Schools..	2,234	3,804	3,218	2,962	2,431	2,096	1,693	1,115	583	79	7	—	—	—	—	—	—	20,222*
Resident Boarders Attending Classes at Residential Schools	480	1,206	1,252	1,243	1,169	1,013	865	620	492	304	134	70	59	—	—	—	—	8,907
Day Pupils Attending Classes at Residential Schools	197	424	322	297	255	249	204	118	96	7	—	4	—	—	—	—	—	2,173
Attending Seasonal Schools	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	698	698
Attending Hospital Schools	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	293	293
Attending Provincial, Territorial and Private Schools	—	1,540	1,019	1,064	1,008	967	924	931	796	904	550	343	202	22	438	114	—	10,822**
Total..................	2,911	6,974	5,811	5,566	4,863	4,325	3,686	2,784	1,967	1,294	691	417	261	22	438	114	991	43,115***

* Includes 393 resident boarders attending Indian day schools
** Does not include 2,363 students for whom grading is not known
*** Does not include 1,263 non-Indians attending Indian schools

receive their high school education in non-Indian schools, and it is estimated that almost half those now enrolled in Indian schools will later attend non-Indian schools at some stage.

For these reasons, there is close co-operation between the Indian Affairs Branch and the educational authorities of the provinces. Teachers are recruited from the same sources as for provincial schools, common texts are used, school inspections are frequently carried out by provincial officers, and examinations are often a joint activity. Indian schools with sufficiently large enrolment offer practical arts courses, including home economics and industrial arts, which are essentially those offered in junior and senior grades of provincial high schools, adjusted to meet individual and community needs. The Indian Affairs Branch relies on provincial and private facilities for technical training and the education of handicapped children. In 1960-61 there were 31 Indian children in institutions for the deaf or blind.

Normally the language of instruction, either French or English, is that of the non-Indian communities surrounding the reserves. However, each Indian band and, in turn, each group within the band enjoy statutory discretions with respect to education. Thus, some Indian groups in French-speaking areas of Quebec have selected English as the language of instruction because, it is said, the children expect to seek work in due course in the United States! Provision is also made for segregation on religious grounds, and for the employment of teachers of the same faith as the pupils under their care.

Academic, professional or technical training beyond the secondary grades is financed by the Branch in individual cases. In 1960 there were 82 Indian students taking work beyond junior matriculation level, as well as 13 in teacher-training institutions.

The analysis of enrolment by grades in Table 3 shows, as might be expected with an increasing population, a heavy concentration in the lower grades which reflects the increasing momentum of the programme. But this concentration is, in part, a symptom of the problems of transportation and the economic stringency of Indian life. Table 4 analyzes school withdrawals according to age and grade. The drop-out rate below grade VIII and below sixteen years of age is very much heavier than in provincial schools. A major effort to reduce early drop-outs is needed if optimum use is to be made of federal expenditures on Indian education.

Teaching Staff

The teaching staff of the Indian Affairs Branch, as of March 1961, consisted of 1,342 full-time and 36 part-time teachers. Remuneration is related to

Table 4—AGE-GRADE WITHDRAWALS FROM INDIAN SCHOOLS 1959-60

AGE (At date of withdrawal)	*Girls & Boys by Grade*													
	Below 2	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*Total*
10 Years and under	42	13	5	2	—	—	—	—	—	—	—	—	—	62
11 Years	3	4	5	2	2	—	—	—	—	—	—	—	—	16
12 Years	1	4	3	6	4	3	—	—	—	—	—	—	—	21
13 Years	4	7	9	5	5	5	6	—	1	—	—	—	—	42
14 Years	1	4	16	25	45	34	24	5	1	—	—	—	—	155
15 Years	4	6	18	41	90	101	86	68	8	1	2	—	—	425
16 Years	3	7	24	58	94	139	187	152	34	6	2	—	—	706
17 Years	1	3	2	2	9	26	32	51	35	8	9	—	—	178
18 Years	—	—	—	3	2	2	6	12	17	21	12	1	—	76
19 Years	—	—	2	—	—	—	1	3	5	5	11	—	1	28
20 Years	—	—	—	—	—	—	—	—	2	2	6	1	—	11
21 Years and Over	2	—	1	2	1	1	—	1	—	—	1	2	—	11
Total	61	48	85	146	252	311	342	292	103	43	43	4	1	1,731

professional qualifications and length of experience. The scale starts at $2,700, rising to $7,750 for a teacher with six years' training beyond senior matriculation and having eleven years' experience. The current average salary of trained teachers is $4,640 per annum, which is above the average salary of all the provinces save one. Teachers lacking professional training are paid in a range from $2,000 to $3,700 per annum.

Teachers contribute towards the general superannuation plan of the government and have the protection of the *Government Employees Compensation Act* against injuries suffered while on duty. They also qualify for civil service isolation allowances, ranging from $200 for a single person to $2,100 for a teacher with dependents. Transportation costs to isolated locations are also paid by the Branch, and air travel is necessary to reach areas having approximately ten per cent of the classrooms.

The recruitment of teachers occasions no greater difficulty than in rural school districts, although the schools in the south are more readily staffed than those that are more isolated. The annual turnover of teaching staff is approximately twenty-five per cent. Teachers may be recruited in one province and assigned to duties in another, a practice which facilitates matching the religion of teachers and pupils. All teaching appointments are made by the Minister of Citizenship and Immigration on the recommendation of departmental officers and, in recruiting, the Indian Affairs Branch receives active assistance from local church authorities with special interests in the Indian people.

The training and employment of Indians in the teaching profession is a significant and commendable development in Indian education. One hundred and twenty-one teachers, almost ten per cent of the present teaching staff, enjoy Indian status. In recent years, the number of Indians undergoing professional training has been approximately thirty, and the expectation is that the proportion of Indian teachers will continue to increase.

Education Costs

The policy of the Education Division of the Indian Affairs Branch is to provide for all elements of cost incurred in the operation of Indian schools. Thus, in addition to the usual expense represented by teachers' salaries, school-room accommodation, and hostel operation, there are supplementary expenses borne by the Branch Vote. Textbooks, stationery and supplies of all kinds cost $400,000, sports equipment $75,000, and nutritional supplements (biscuits and milk) approximately $95,000, annually. The expenditures on Indian education, which have doubled during the past six years, are set out in Table 5.

Table 5—ANNUAL EXPENDITURES ON INDIAN EDUCATION BY THE FEDERAL GOVERNMENT

Year	General Administration	Day Schools		Residential Schools		Payments to Other Authorities	Total
		Operating	Capital	Operating	Capital		
	(in thousands of dollars)						
1955–56	144	2,946	1,851	5,423	2,224	832	13,420
1956–57	177	3,800	1,901	5,739	2,086	1,060	14,763
1957–58	229	4,081	2,884	6,090	2,654	1,519	17,457
1958–59	279	5,159	3,427	8,536	2,869	1,982	22,252
1959–60	314	5,645	3,113	9,342	4,241	2,252	24,907
1960–61	359	6,138	4,500	10,600	3,308	2,834	27,739

The progressive increase in already large capital expenditures reflects the steady extension of operations, but there are grounds for fear that school construction by the Branch may, in fact, be hindering the process of integration. More rapid progress in the integration of Indian children into the public and high schools of the provinces should arrest the construction of new Indian classrooms.

Payments to other authorities for the tuition of Indian children attending non-Indian schools have risen from $832,000 in 1955-56 to $2,834,000 six years later, when they covered 10,800 pupils—an average of $262.41 per pupil. In the Indian schools operated by the Branch, taking into account current capital outlays, the costs to the federal government in 1960-61 were $512.63 per pupil in day schools and $1,267 per pupil in residential schools.

Adult Education

A modest programme of adult education for Indians was instituted about five years ago and is now beginning to gain momentum. The programme, which is introduced on an Indian reserve only on request, covers four basic areas:

- Literacy training in English or French.
- Continuation or upgrading courses for young adults.
- Trade, vocational and apprenticeship training.
- Community improvement for those wishing to improve home conditions, village facilities or community life.

Courses are organized in the local school on the reserve or, alternatively, the participants are transported to outside schools for night classes. Classes are

established when a minimum of five persons enrol. In some cases, finances are provided for younger Indians attending regular or special courses in a nearby centre to prepare them for employment. In the most recent year for which statistics are available, 1,590 adults were taking advantage of these programmes, distributed as follows:

Literacy training	421
Continuation courses	180
Trade, vocational and apprenticeship training	469
Home and community improvement	520

Conclusions

The administrative organization of the Education Division of the Indian Affairs Branch appears to be efficient, and current results are impressive. The policy of the Branch to improve the status of the Indian is amply reflected in the educational programmes.

Despite a heavy concentration of pupils in the lower grades and an unsatisfactory record of early drop-outs, evidence of real progress is afforded by:

- The increasing number of Indian children attending school.
- Longer attendance by Indians at non-Indian schools.
- The increasing proportion of Indian teachers, which is now ten per cent.
- The interest already developed in adult education programmes, which would have appeared impossible of achievement a generation ago.

Much remains to be done, however, before the general educational level of Indians can approach that of other Canadians. In education, as in health and hospital services which are dealt with in the report on *Health Services,* the great opportunity to effect improvement without enormous cost lies in making available to Indians the services regularly available to the rest of the population. For this reason, your Commissioners regard the more rapid development of school integration as worthy of top priority. The resultant economies are so great that the federal government cannot afford to suffer delay through protracted haggling over price with provincial authorities. In addition to arranging for the enrolment of increased numbers of Indian children in provincial schools, the transfer of existing Indian school premises for operation as integrated schools by provincial authority holds promise of substantial economies. Your Commissioners accordingly view with some concern the dimensions of current capital construction programmes, which—while

ameliorating current conditions—may create obstacles to the implementation of a long-term integration policy.

We therefore recommend that:

1. Efforts to integrate Indian school populations with provincial school systems be intensified and prosecuted on a continuing basis.

2. In planning capital construction, present and projected long-term rates of integration be taken into account.

3. New construction of Indian schools be limited to cases of long-term need.

4. Special effort be directed to reducing the number of pupils withdrawing from Indian schools at early grades and ages.

NATIONAL DEFENCE SCHOOLS

The education of children of Service personnel is not a statutory federal obligation, but since World War II the Department of National Defence has assumed responsibility for dependents of Service personnel resident on Crown property or abroad. Approximately 70,000 servicemen are married, of whom some 27,000 live in quarters provided by the Department of National Defence in Canada which are not subject to municipal taxation. Military establishments are generally located in rural areas adjacent to towns or cities and as these establishments have grown, the educational needs of servicemen have generally exceeded the capacity of local facilities by a wide margin. To meet these needs, departmental schools have been constructed of standard design containing from six to nineteen classrooms. Canadian troops posted overseas have included many married men and provision has accordingly been made at several places in Europe for the education of their dependents, including the acquisition and staffing of both elementary and secondary schools.

In 1960, over 40,000 children of uniformed personnel (and of some civilian employees of the Department of National Defence) were receiving primary and secondary education at federal expense. In Canada, approximately 27,300 were being taught in about 100 schools operated by the department, and a further 5,700 were attending provincial schools at federal expense. In Europe, another 7,200 children of servicemen were enrolled in

departmental schools, with Canadian teachers and curricula. The annual cost of these programmes exceeds $11 million, and the "fringe benefit" in the form of free education so provided is of substantial importance to the parents of these children.

Schools in Canada

Schools administered by the Department of National Defence which are located in Quebec and Newfoundland operate as private schools, but elsewhere the usual pattern of organization involves the formation of a public school or high school district under provincial laws, with a school board or official trustee registered with the provincial department of education. This entitles the boards to provincial grants and the schools to regular professional inspection, and permits the teachers to receive all the benefits of provincial employment. In some instances, the administration of a school on a particular station is assumed by a nearby civilian authority. The schools in British Columbia are operated by the province at provincial expense, and the Department contributes $15 per pupil per month.

The administration of the Departmental school system is efficiently conducted by a Director of Educational Services attached to the Associate Deputy Minister's office in Ottawa. The operation is decentralized to a degree that is unusual in government departments. School principals have broader responsibilities than they would normally carry in most school systems, including the custody of substantial inventories of supplies. Arrangements with the provinces dispose of curriculum problems and provide for school inspection.

SCHOOL ATTENDANCE. Enrolment in any class from kindergarten to grade 13, provided the child is under 19 years of age, is open to:

- Children of Service personnel, and of civilians employed by the Department of National Defence in the district.
- Children of personnel of the Armed Services of allied countries, and of personnel employed by other government departments, if resident at the camp or station, provided that accommodation is available.

No charge is made for tuition of these classes. However, if there is surplus capacity, other children are sometimes admitted at the request of provincial authorities and are charged tuition fees comparable to those at other schools in the locality.

In the calendar year 1960, there were 27,341 elementary and secondary pupils in the Service schools in Canada. The 1,049 classrooms in operation

were staffed by 1,182 teachers. The teacher-student ratio of 1:23.13 is slightly more favourable than that prevailing in most provinces. In the same period, 3,720 elementary and 2,019 secondary pupils were attending civilian schools at federal expense.

OPERATING COSTS. The cost of operating Service schools in Canada is shown in Table 6, in which costs are analyzed by standard objects of expenditure and by Services, including the Defence Research Board.

Table 6—COST OF OPERATING SERVICE SCHOOLS IN CANADA

Calendar Year 1960

	Navy	*Army*	*RCAF*	*Defence Research Board*	*Total*
	$	$	$	$	$
Salaries:					
Teachers	240,000	2,227,270	2,312,380	48,286	4,827,936
Others	—	61,200	298,057	—	359,257
School Supplies and Textbooks	6,500	193,981	265,864	3,067	469,412
Transportation	—	47,842	40,534	—	88,376
Construction	—	1,490,839	1,434,604	—	2,925,443
Heating	—	171,863	131,810	—	303,673
Maintenance and Repairs.	—	162,727	100,443	8,173	271,343
Electricity and Water	—	69,867	21,505	—	91,372
Sports Grants	3,025	9,300	11,087	250	23,662
Liability Insurance	300	1,070	1,338	—	2,708
Other	2,100	11,446	17,112	500	31,158
Total	251,925	4,447,405	4,634,734	60,276	9,394,340
Less—					
Provincial Grants	42,500	1,038,013	1,006,694	15,948	2,103,155
Net cost	209,425	3,409,392	3,628,040	44,328	7,291,185

It will be seen that the gross operating costs are reduced by the amount of grants received from all provinces, except Quebec, Newfoundland and British Columbia. The basis on which these grants are paid varies widely from province to province, as do the operating costs of the schools. The receipt of over $2 million annually is a unique instance of a provincial subsidy for a federal activity.

Teachers are employed on conventional contracts, and their remuneration, based on qualifications and experience, corresponds to that paid by the province in which the school is located; consequently there is considerable

variation in the salary structure across Canada. Certain perquisites—messing and accommodation—are granted to teachers in Service schools. No difficulty is experienced in securing the number of teachers required.

The gross operating costs shown in Table 6 total $9,394,340, giving a cost per pupil of $343 per annum. However, as the table indicates, the Departmental distribution of costs does not take into account certain elements of cost directly incurred by military establishments as part of their normal activities—Service pay and allowances, for example. Moreover, the practice of charging the total cost of construction during the year, while ignoring capital outlays in previous years, serves to distort cost information.

Payments to civilian schools for the tuition of Service children are not included in the costs shown in Table 6. In 1960, there were 3,720 elementary and 2,019 secondary school children attending local schools, and fees paid for their tuition exceeded $1.5 million. These fees vary widely from province to province, ranging from $2 to $70 per pupil per month. An exception to the general rule for payment of such fees by the Department was noted in St. John's, Newfoundland, where the children of servicemen living in married quarters associated with Buckmasters' Field attend local schools at the expense of their parents.

The fees paid on behalf of each of the Services are as follows:

Royal Canadian Navy	$ 144,000
Canadian Army	760,598
Royal Canadian Air Force	609,172
Defence Research Board	4,722
Total	$ 1,518,492

Schools Overseas

The overseas educational establishment of the Department of National Defence comprises thirteen schools in rented premises and three Canadian sections in other schools, which are located in England (1), France (6), Germany (7), Belgium (1), and Italy (1). A Superintendent of Schools with headquarters at Metz, France, is responsible for the supervision and inspection of these units and reports to the Director of Education Services in Ottawa. Annual costs approximate $2.4 million.

SCHOOL ATTENDANCE. All children of Service personnel stationed overseas are eligible to attend these schools without charge. Free transportation is provided for those living off-station but, where distances are too great, educational allowances are paid to parents. A small number of other Canadian

children attend on payment of monthly fees of $15 for elementary or $20 for secondary school pupils. Textbooks, stationery and other supplies, including food supplements, are provided at federal expense.

At the time of the survey, 7,200 pupils were enrolled; about fifteen per cent were in secondary grades. There were 225 elementary and 67 secondary classrooms in use, with a total teaching staff of 380, mostly women. The over-all teacher-student ratio was 1:19.14. The ratio of 1:24.5 in elementary grades is just slightly more favourable than for most Canadian provinces. The ratio of 1:9.4 in secondary grades, which is less than half the normal provincial figure, results from relatively low enrolment and the demand for options in secondary programmes.

TEACHERS AND CURRICULA. Teachers are recruited by arrangement with local school authorities in Canada, and are generally seconded for two-year periods. The government reimburses the school boards for the remuneration of seconded teachers, who thus retain their status and superannuation benefits in their home provinces. Principals are paid $9,000 per annum, and the ceiling for teachers is $7,500. Transportation overseas of teachers and their dependents is provided free, and living quarters are supplied or an allowance paid in lieu thereof. As regards entitlement to privileges attaching to Service rank, teachers are treated as the equivalent of army captains, while principals rank as majors.

The curricula for grades 1 to 10 are composites of those of the several provincial departments of education. Grades 11 to 13 follow the Ontario curriculum. When there are at least 25 children of French-speaking parents in grades 1 to 3 (as a group), or in grades 4 to 8, instruction is given in French, if requested, following the Quebec curriculum. No vocational courses are offered, nor is any provision made for handicapped children. Examinations for grade 12 are approved by the Ontario Department of Education, and grade 13 students write papers set by that Department. Standings attained in overseas schools are normally accepted by local Canadian authorities.

OPERATING COSTS. The direct operating cost aproximates $2,450,000 annually, which is broken down into the more significant items of cost in Table 7.

The cost per overseas classroom was $8,386, and the average cost per pupil was $336, as compared with the cost of $343 per pupil in the Service schools in Canada. However, the latter includes capital costs for construction during the year, and a more informative comparison is obtained by omitting the cost of accommodation; on this basis, the average cost per pupil was $285 overseas as against $212 in Canada.

Table 7—COST OF OPERATING NATIONAL DEFENCE SCHOOLS OVERSEAS

Calendar Year 1960

	Army	*RCAF*	*Total*
	$	$	$
Teachers:			
Salaries	601,580	1,018,251	1,619,831
Transportation	34,457	80,000	114,457
Superannuation	46,000	40,000	86,000
Local Transportation for Pupils	15,878	72,983	88,861
Textbooks, Supplies and Equipment	44,106	59,552	103,658
Sports Equipment	2,775	6,955	9,730
Miscellaneous Grants	2,500	2,896	5,396
School Rentals	193,727	200,465	394,192
Dependent's Education Allowances	800	25,884	26,684
	941,823	1,506,986	2,448,809

The most unfavourable aspect of this overseas educational programme is the low density of pupils in the secondary grades. If means could be found, without detriment to military effectiveness, to discontinue the overseas posting of personnel with children of high school age, educational needs could be limited to elementary instruction, and a substantial simplification of the operation would result in material savings.

General Observations

The Department of National Defence has become committed to the maintenance of an educational system accommodating some 40,000 children of Service personnel. There is no legislation on the subject, and practice is governed by Order in Council. Parliament votes the money required, now over $11 million annually, without identification of the object of the expenditure, because the educational programme is part of the omnibus total required for the operation of the several Services. Having regard to the provisions of the *British North America Act* and other pertinent considerations, the efforts of the Department to secure provincial co-operation appear logical and necessary. Of the various arrangements in force, that with British Columbia seems the most desirable. In spite of the economical nature of the present departmental administration, your Commissioners would regard the wholesale adoption of such arrangements as an improvement.

Total annual expenditures on education by the Department of National Defence are so substantial that it is pertinent to question whether free educa-

tion should be provided to Service personnel merely because they are neither property owners nor tenants. The "shilling a day" soldier no longer exists, and free education is a fringe benefit which many Canadians may envy. While some circumstances create a special need, as in the case of Canadian children in Europe, the general question of entitlement to free education would be better dealt with by legislation than by Service regulations and Orders in Council.

NORTHERN SCHOOLS

Under the *Yukon Act* and the *Northwest Territories Act*, education is a territorial responsibility. The school system in the Yukon Territory is based on the British Columbia curriculum and administered by the resident Commissioner, who is the chief executive officer of the wholly elected territorial council, with little or no interference or advice from Ottawa. The Council of the Northwest Territories, comprising five members appointed by the federal government and four elected members, has similar power to make ordinances with respect to education, subject to the assent of the Commissioner. At present, the office of Commissioner is held by the Deputy Minister of Northern Affairs and National Resources, and the territorial school system is administered directly from Ottawa. The federal government has also assumed responsibility for all Eskimos, including those living in the provinces other than Newfoundland; the Eskimos and Indians of Labrador are a provincial responsibility. The population of the Northwest Territories proper, which approximates 23,000, includes some 9,000 children under fifteen years of age.

Your Commissioners are here concerned with the school system operated by the Department of Northern Affairs and National Resources, which covers the whole of the Northwest Territories and schools at Churchill, Manitoba, and in northern Quebec. The school at Old Crow in the Yukon Territory is included for geographical convenience. In September 1960, almost 4,900 children were attending these schools and were being taught in 184 classrooms, including 24 assigned to secondary grades. Currently, over fifty per cent of the pupils are in classes below grade 4, with a heavy concentration in grade 1. About twenty-four per cent of the school population are Indian and thirty-six per cent Eskimo.

Pupils

Since the end of World War II, the federal government has made a determined effort to attract children to northern schools. In 1950, approximately 1,100 were attending, and within five years the number had doubled; by

1959, there were 3,650 in the schools, and as of September 30, 1960, the enrolment was 4,870.

The Northwest Territories approximate 1,300,000 square miles in area, and consequently most of the children are either attending residential schools or living in hostels adjacent to schools. It costs approximately $100,000 annually to bring the children from their homes and to return them at the end of school terms. Where a child cannot attend school, a correspondence course is offered. No fees are charged in the schools, and all textbooks, stationery and working materials are provided without charge.

Teachers

The salary range for teachers is from $3,340 to $9,300, depending on qualifications and experience, and the average salary paid is about $4,450. In addition, the teachers qualify for civil service isolation allowances and are provided with living accommodation, and their transportation costs are borne by the federal government. At the time of the survey, 217 teachers were employed, and the average tenure of appointment was 2.2 years.

Curriculum

The school curricula of the provinces immediately to the south—Alberta, Manitoba, Ontario and Quebec (Protestant Committee on Education)—form the basis of the programmes in the Districts of Mackenzie, Keewatin and Franklin, and in Arctic Quebec, respectively. Nonetheless, the Department of Northern Affairs and National Resources has a curriculum staff of eleven, larger than that maintained by most provinces. The Department is concerned with developing deviations from provincial curricula in a manner which, to your Commissioners, appears unnecessarily elaborate and of doubtful utility. These activities are described by the Department in the following terms:

> The Curriculum Section is working on programs of studies and appropriate instructional materials to meet particular needs of northern communities in both the Mackenzie and Arctic Districts. These programs and materials are designed to highlight and preserve as far as it is practicable, desirable features of northern native cultures, including that of the Eskimo. After a short period of experimental use, these programes will replace the provincial curriculum now in use at the elementary levels in all northern schools.

The wisdom of abandoning links with provincial and Indian education seems questionable, and the projected development of an independent curriculum for the Northwest Territories will perpetuate what today appears to be an excessive concern with this subject. Present deviations from provincial curricula are already considerably more extensive than those developed within the Indian school system.

Vocational Training and Adult Education

In addition to regular academic courses, some northern schools offer vocational and technical instruction, including courses in building construction, mechanics, heavy equipment operation, home economics and commercial subjects. Over 100 pupils are taking these courses. Handicapped children are sent to provincial or private institutions.

A programme of adult education is under development within the Department, but is still in its infancy. By contrast with the adult education programme of the Indian Affairs Branch, which is modest and realistic, the Northern Affairs programme, as described by the Department itself, is elaborate, vague and confused. So far, there is little evidence that very much is being achieved, and your Commissioners are of opinion that a less pretentious and more practical approach is needed.

Administration

The school system is administered and, in general, directly operated by the Education Division of the Northern Administration Branch of the Department of Northern Affairs and National Resources. However, under a provision of the *Northwest Territories Act,* there are organized school districts in Yellowknife and Hay River which exercise a degree of local autonomy. The Indian Affairs Branch of the Department of Citizenship and Immigration has a continuing interest in over 1,100 Indian children attending school in the north. Thus, with the responsibility for some 1,800 Eskimo school children, the federal government is directly involved in the education of approximately sixty per cent of the school population, and has retained responsibility for the remainder. There is no deliberate racial segregation in northern schools, but there are communities where virtually the whole of the population is either Indian or Eskimo.

In contrast to the Indian and National Defence school systems, both of which are operated on a decentralized basis, the northern school system is weighed down by a heavy administrative superstructure in the Education Division of the Department of Northern Affairs and National Resources in Ottawa. The headquarters staff numbers 43, or one person for every 4.5 classrooms. The comparable ratio in the Indian Affairs Branch is one for every 23.5 classrooms, and a very much more favourable ratio is sustained in the Department of National Defence.

Costs

Federal expenditures on northern education are summarized in Table 8. Leaving aside construction costs, which are abnormally high because of the

remote locations of many schools, the operating cost per pupil in 1960-61 was approximately $1,100. It must be remembered, however, that most of the pupils are housed and fed, and transportation costs are understandably large.

Table 8—DEPARTMENT OF NORTHERN AFFAIRS AND NATIONAL RESOURCES EXPENDITURE ON EDUCATION

Year	*Administration and Operating Costs*	*Construction*	*Total*
	(in thousands of dollars)		
1960-61	5,340	2,250	7,590
1961-62	6,100	2,000	8,100
1962-63 (Estimates)	6,900	4,475	11,375

Conclusions

In developing educational facilities for children in the far north, it is necessary to maintain a proper perspective and sense of proportion. The territories are so geographically enormous and the population so widely dispersed that there is virtually no limit to the sums that could be spent on improving educational opportunities for the people. The Estimates for the fiscal year 1962-63 call for the spending of more than $1,250 for each child in the north, although a significant proportion have no access to schools. Your Commissioners believe that, with the money now being spent, a much more effective job could be done if northern schools were administered in the north instead of from Ottawa. The practical touch is badly needed. Apart from the delays and frustrations occasioned by difficult and slow communications, effective delegation of authority to the territorial administration should rid programmes of unrealistic and sometimes pretentious adornments.

This change should be facilitated by the planned division of the Northwest Territories into two separate small territories. Virtually all the Indian and most of the white children attending northern schools are resident in the proposed Mackenzie Territory. Moreover, a large proportion of the white children are, in fact, of mixed blood and indistinguishable from their Indian neighbours except by the technicalities of the *Indian Act*. In the provinces, the policy of the Indian Affairs Branch is to integrate Indian education as rapidly as possible with the facilities available to the general population. Many Indians from primary schools go on to non-Indian secondary schools—a transition that is made possible by the use of common curricula. The policy of the Department of Northern Affairs and National Resources appears to take no

account of these advantages. Few Eskimos are indigenous to the Mackenzie Valley, and the development of independent curricula for elementary grades, with over-emphasis on the special needs of Eskimos, may well prove gravely disadvantageous to non-Eskimo children in later life.

We therefore recommend that:

1. The operation of the northern school system be transferred as rapidly as possible from the Department of Northern Affairs and National Resources in Ottawa to the several territorial administrations.
2. The curricula used in northern schools be co-ordinated, as closely as possible, with those of the provinces immediately to the south of the several administrative districts.
3. The northern adult education programme be revised on more practical lines and administered within the several northern districts.

3

MILITARY EDUCATION

A relatively high turnover of officers in the Armed Forces, coupled with early-retirement policies, results in a requirement by the Services for nearly 500 newly commissioned officers each year. To meet this need, under the Regular Officers Training Plan, the Department of National Defence operates three residential military colleges and finances the university education of other selected candidates for commissions in return for an agreed period of service (generally three years) in the Armed Forces after graduation. The Department also operates the National Defence College and, through the Directorate of Naval Education, provides academic education for some naval personnel.

MILITARY COLLEGES FOR OFFICER CADETS

The calendar of the Canadian Service Colleges for training officer cadets declares that the aim is:

> To impart the knowledge, to teach the skills, and to develop the qualities of character, loyalty, and leadership essential to well educated and efficient young officers in preparation for a lifetime of service to Canada as officers of the Armed Forces. The educational and training programme seeks to develop in the officer cadets a true sense of values, to teach them to think effectively, to communicate their thoughts clearly and precisely, and to help them to develop their judgment.

Each year, between 135 and 140 officer cadets graduate from the Royal Military College at Kingston, Ontario, after completing a recognized university course in either arts, science or engineering. Not all the officer cadets take the whole four-year course at Kingston. Some attend the Canadian Service

College at Royal Roads, Victoria, B.C., for the first two years of the course. Others take the first two years at the Collège Militaire Royal, St-Jean, Quebec, after a one-year preparatory course. For all, the two final years of the course are taken at the Royal Military College at Kingston. Collectively, the colleges can accommodate 1,078 students and had an enrolment of 999 at September 1960. Table 9 shows the student distribution.

Table 9—CANADIAN SERVICE COLLEGES ENROLMENTS

September 1960

		Courses						
College	*Class Year*	*General*	*Arts*	*General Science*	*Honours Science*	*Engineering*	*Total*	
Royal Military College, Kingston	1	70	—	—	—	—	70	
	2	—	13	9	2	27	51	
	3	—	34	37	9	94	174	
	4	—	36	16	8	77	137	
								432
Royal Roads, Victoria	1	112	—	—	—	—	112	
	2	—	10	14	1	40	65	
								177
Collège Militaire Royal, St-Jean	Prep.*	177	—	—	—	—	177	
	1	133	—	—	—	—	133	
	2	—	14	4	—	62	80	
								390
								999

* Senior matriculation is required at R.M.C. and Royal Roads for entrance, but candidates with junior matriculation are accepted at St-Jean; therefore the first year is preparatory.

Each of the colleges has a larger faculty in relation to the number of students than is customary in Canadian universities. At September 1960, the three military colleges had 183 instructors for 999 students, a ratio of one instructor for each 5.46 students. A ratio of one instructor for each 10 students is considered satisfactory in most Canadian universities, and in many the ratio runs as high as one to 14 or 15 students. Table 10 is an analysis of the status of the instructional staff at each of the colleges.

In addition to a greater density of teachers, the military colleges have instructional staffs of higher academic rank than those of Canadian universities in general, as shown in Table 11.

Table 10—CANADIAN SERVICE COLLEGES—INSTRUCTIONAL STAFF

	R.M.C. Kingston (432 students)	R.R. Victoria (177 students)	C.M.R. St-Jean (390 students)	Total
Civilians:				
Professors	23	11	19	53
Associate Professors	20	8	16	44
Assistant Professors	31	11	27	69
Service:				
Major (or equivalent rank)	1	1	2	4
Lieut. (or equivalent rank)	12	—	1	13
	87	31	65	183

Table 11—CANADIAN SERVICE COLLEGES AND UNIVERSITIES, RELATIVE RANK OF INSTRUCTIONAL STAFF

Rank	Proportion of Faculty in Each Rank: Military Colleges	Proportion of Faculty in Each Rank: Canadian Average
Professor	31.9 per cent	23.2 per cent
Associate Professor	26.5 " "	24.0 " "
Assistant Professor	41.5 " "	30.1 " "
Lecturer	....	19.0 " "

The establishment for instructional staff is thus considerably more generous than in most Canadian universities. This is largely due to the small size of classes. The number of educational options available necessitates a large academic staff and, to achieve a generally acceptable level of academic costs, classes would have to be much larger than present enrolment permits. To correct this condition, the alternatives—neither of which may be practicable—are substantially to increase enrolment or to reduce the number of optional courses.

Apart from the relatively high density of instructors, the administrative and supporting staffs are widely out of line with general Canadian university practice. The total instructional and supporting staffs of the three colleges number 900—a staff-student ratio of 1 to 1.1, which is exceedingly high in relation to other Canadian universities. There are some special reasons for this; the colleges are residential institutions, where military discipline and practices apply, and governmental accounting and stores control procedures are more rigourous than those of universities in general. Nevertheless, a staff of 110 seems excessive to handle the food services at the Royal Military College for 432 cadets with their instructors and supporting staff.

It has been calculated from available accounts that the average cost per student at the Canadian Service Colleges is $5,500 a year, but your Commissioners believe that the true amount would be shown to be much greater if all-inclusive cost calculations were practicable. Only forty-one per cent of the students who enrol in these colleges remain to graduate. Almost ninety per cent of those who do graduate and enter the Services make a military career their lifework. Taking the system as a whole, present expenditures appear to be out of all proportion to the results achieved. Only about 140 graduates a year are produced for an annual expenditure of more than $6 million and, taking later losses into account, the cost of training each career officer who enters the Services through the colleges is approximately $47,000.

Some considerable amelioration would be possible if these training activities could be concentrated within a single institution. However, the Collège Militaire Royal fulfils an essential function in a bilingual country, and its abandonment is impracticable. There is no equally valid reason for the continued operation of the college at Royal Roads, which has fewer than 200 students and offers only the first two years of the course.

We therefore recommend that:

1 The Canadian Service College at Royal Roads, Victoria, B.C., be closed.

2 The government institute a critical review, preferably with outside assistance, of the size of the instructing, administrative and supporting staffs at the Canadian Service Colleges.

REGULAR OFFICERS TRAINING PLAN–UNIVERSITY STUDENTS

Of the five hundred newly commissioned officers needed annually by the Armed Forces, approximately one hundred are doctors and dentists; recruitment and military training in these professions are the subject of observations in the report on *Medical Services*. Of the remaining four hundred needed, the residential military Colleges are producing about one hundred and forty. Experience since World War II indicates that strong inducements are required to attract university graduates to a military career. Nevertheless, the Services look to the universities to supply about two hundred and fifty officers a year, other than medical and dental officers.

The Department of National Defence therefore advertises extensively for boys between the ages of 16 and 21, physically fit and single; in a recent year about $200,000 was spent, or about $235.00 for each applicant. Under the

plan for university entrance, the government pays tuition fees at a university of the candidate's choice, with an annual book allowance of $75, and the candidate receives a living allowance of $65 a month during the academic year and an annual stipend of $756. In return, the candidate undertakes to engage in military training one evening a week during the university term and for ten weeks during the summer. Upon graduation, he is obligated to serve three years as a commissioned officer; should he resign earlier, he is expected to make a refund based on his length of service. Having completed three years' service, he is free to return to civilian life or to re-enlist. Relatively high losses are experienced at the end of the three-year period, but those who re-enlist generally make Service life a career. On this ground alone, therefore, consideration might well be given to a longer period of first enlistment.

As of March 31, 1961, there were 948 young men in university under the Regular Officers Training Plan, of whom 175 were destined for the Navy, 335 for the Army, and 438 for the Royal Canadian Air Force. As in the military colleges, the majority were taking engineering courses; the distribution by faculty was:

Engineering	567
Science	206
Arts	104
Arts and Science	54
Commercial	17

The average annual cost for each student exceeds $2,000. The Services experience little difficulty in securing applications, but four out of five of those interviewed are rejected for one reason or another. Of those accepted, only fifty-three per cent ultimately become officers; the others fall out because of academic failure or for other reasons. The Department of National Defence spends more than $2 million a year on this university programme, but it is not producing the desired number of university-trained men who are prepared to make a lifetime career in the Services. To many who participate, the plan is simply a means to finance their university education.

Nevertheless, it should be noted that, taking into account the rate of loss before and after graduation, the cost of training each career officer acquired by the Services through the university plan is about $14,300—less than one-third of the cost of training an entrant through the military colleges. To point the comparison in another way, each $1 million spent on the Canadian Service Colleges produces about twenty-one career officers and three other university graduates, while each $1 million spent on the university scheme produces more than seventy career officers and thirty-five other university graduates for the general benefit of the Canadian economy.

Your Commissioners do not attempt to determine whether the Services actually need as many university graduates as they seek, or whether it is sound policy to require commissioned service for a minimum of only three years. However, it is obvious that the $200,000 spent in advertising addressed to the public at large would be more effective if it were directly beamed at the potential market, at best a limited one; and it is clear that the government is reaping only a minimal return on its investment.

We therefore recommend that: An expert civilian-military committee be constituted to assess:

a. the real needs of the Services for commissioned officers with university degrees; and

b. ways and means of filling these needs at reasonable cost.

THE NATIONAL DEFENCE COLLEGE

The National Defence College at Kingston, Ontario, was established in 1947, and the first course was completed in 1948. The purpose is to provide training and education to selected officers and others to enhance their fitness for senior appointments. To this end, the course is designed to broaden and increase their knowledge and understanding of military, economic, political and organizational factors and relationships that contribute to modern defence policies. Twenty-nine senior executives attended the one-year course in 1960-61; they were nominated by:

Royal Canadian Navy	4
Canadian Army	4
Royal Canadian Air Force	4
Defence Research Board	2
Royal Canadian Mounted Police	1
Department of External Affairs	2
Department of Finance	1
Department of Defence Production	1
Department of Labour	1
Civil Service Commission	1
United Kingdom and United States	8

There were four full-time lecturers at the college, but the bulk of instruction was by eighty-nine visiting lecturers who participated in the 1960-61 course. Instructional costs approximated $150,000. During the term, visits were made to North American and European points of military significance. The total

cost of the National Defence College is estimated at approximately $600,000; of this amount, $250,000 represented the pay and allowances of officers of the Services and official salaries of the Canadian civil servants who attended the course.

A college organized on these lines is considered essential in most countries where the defence effort requires co-operation between the Armed Forces, civilian administrators and industry. While no representatives from industry attended the 1960-61 course, two or more have participated in other years. Only senior officers are nominated by the Services and the average age of military participants at recent courses was 42; this means that the government frequently invests an additional $12,000 in an officer during the last decade of his military career. Consideration should therefore be given to the selection of officers for the college as soon as possible after they are marked out for eventual promotion to senior appointments.

DIRECTORATE OF NAVAL EDUCATION

In a preparatory school at Esquimalt, B.C., operated by the Directorate of Naval Education, courses leading to junior and senior matriculation are offered to naval personnel seeking admission to a Canadian Service College, to a university, or to the development course at HMCS *Venture,* which is described below. At the preparatory school, an instructional staff of nine—three lieutenant-commanders and six lieutenants—is maintained, and the average annual operating cost is approximately $1,900 per student.

The development programme at HMCS *Venture,* also at Esquimalt, is designed primarily to foster the education of potential naval aviators. Students are enrolled with junior matriculation as a minimum qualification, and the instruction covers a five-subject senior matriculation course prescribed by the British Columbia Department of Education, which leads to provincial examinations. The average number of students in attendance is 70, and the school staff comprises 22 officers, 42 enlisted men and 30 civilians—96 in all. With a staff-student ratio of 1:0.73, it is not surprising that the resultant operating cost of $7,500 per student per year is fifty per cent higher than that for the university level education provided by the Canadian Service Colleges.

The Directorate of Naval Education also makes correspondence courses available to personnel of the regular and reserve naval forces, which lead to junior matriculation examinations in mathematics, English, French, physics and chemistry. In addition, the correspondence courses of the Department of Veterans Affairs are made available. Over 5,000 lesson exercises are marked annually, and the cost of this service is estimated at around $10,000 a year.

The regular courses offered by the Directorate are available in the provincial school system of British Columbia. Moreover, various provincial departments of education provide adequate correspondence courses. The total cost is not readily established, because pay and allowances of both students and instructors are involved, but it is clearly excessive and, in the opinion of your Commissioners, the conduct of these educational programmes as a Service activity is unnecessary.

We therefore recommend that: The Directorate of Naval Education be abolished and provincial educational facilities be employed to the extent necessary.

15 HEALTH SERVICES

SERVICES FOR THE PUBLIC

REPORT 15: HEALTH SERVICES

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THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

CONTENTS

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1

INTRODUCTION

The operation of hospitals and health services is basically a provincial responsibility, and the scale of provincial efforts in this field has been steadily expanding. The federal government has contributed support on an increasing scale, the total so expended in 1961-62 amounting to $317 million. Notwithstanding the quickening tempo of provincial activity, the federal government has for various reasons developed its own programmes, costing about $139 million in 1961-62.

While much activity is devoted to the health needs of particular classes of the population—veterans, Indians, Eskimos and servicemen—a significant proportion of these beneficiaries are now entitled as ordinary citizens to facilities under provincial jurisdiction. In the judgment of your Commissioners, the maintenance by the federal government of continually expanding machinery for health services, located almost entirely within the provinces, represents an example of duplication and waste from the national point of view. Continuation of present policies will necessitate very substantial federal expenditures for new facilities, and will compound the problems arising from unnecessary duplication.

Apart from treatment and hospitalization, some of the advisory and technical services now duplicate the efforts of the provinces. In health services, as in other areas noted in the reports of the Commission, many of the federal government's activities originated before the provinces had developed significant programmes of their own. As the level of provincial activity has mounted and direct responsibility has been assumed in provincial pro-

grammes, the federal government has shown a marked reluctance to withdraw from the field, and has tended to justify its continued participation by turning to research and relatively minor subsidiary operations.

In their very nature, parallel health and hospitalization programmes of the provinces and the federal government not only entail duplication and added costs, but serve to impede the development of a proper balance of facilities on a community basis. Your Commissioners believe that, in principle, these unfortunate results may be avoided only through the assumption by the provinces of the prime responsibility and the relegation of the federal government to the provision of necessary residual services.

THE HEALTH PROGRAMMES

This report deals with three major areas of federal activity: medical care and hospitalization of special groups, the promotion of public health, and programmes of a preventive nature. All three involve, to some degree, medical and allied research and investigation, and the compilation and analysis of health statistics.

Each of these is described briefly hereunder. The principal departments of the government engaged in providing health services are the Departments of National Health and Welfare, Veterans Affairs, and National Defence.

Medical Care and Hospitalization of Special Groups

The federal government is heavily involved in providing medical care to Indians, Eskimos, veterans, servicemen, members of the Royal Canadian Mounted Police, inmates of federal penitentiaries, seamen, lepers, and the white population of the Territories. Services to the Armed Forces personnel, veterans and native peoples account for all but a very small proportion of the total expenditures. All servicemen, veterans with service-incurred disabilities, veterans receiving War Veterans Allowances, and native people without means, receive medical care at the expense of the federal government. The majority receive hospital care in federal hospitals, but a significant number of each of these groups is treated in regular community facilities. To provide this care, the federal government employs over 19,000 persons, including 784 doctors and 2,800 nurses. Federal hospitals, with accommodation totalling approximately 12,300 beds, are operated in all provinces and territories except Prince Edward Island, and two facilities are maintained in West Germany. The estimated net total operating costs come to $115.5 million. The clientele for these services includes over 200,000 Indians, Eskimos and residents of the Territories; 130,000 servicemen and Royal Canadian Mounted Police personnel; and about 200,000 veterans. All told, over half a million

Canadians look to the federal government to provide or finance their medical care. Federal hospital facilities are roughly equivalent to those of the province of Alberta, which serve a population almost two and one-half times as large.

Promotion of Public Health

Two means are employed by the federal government to aid the provinces in discharging public health responsibilities: financial aid and advisory or technical services. These programmes are conducted by a relatively small but expert group of about 500 persons, all employed in the Department of National Health and Welfare.

The largest component of financial aid is the assistance rendered to all provinces under the *Hospital Insurance and Diagnostic Services Act* of 1957, which provides for the sharing of the costs of provincially operated hospital insurance programmes. Federal contributions now total $270 million annually and are fixed by formula.

The National Health Grant programme, initiated in 1948 and now providing about $50 million annually, is to assist the provinces to develop and extend health facilities. These grants help finance hospital construction, tuberculosis control, mental health, professional training, cancer control, public health research, medical rehabilitation, crippled children, and child and maternal health. In the main, the grants are made to hospitals and individuals on a shared-cost basis with the province.

In addition to these programmes, advisory and technical services are provided to the provinces and to federal agencies. The services include advice on the assessment of hospital facilities, the initiation of new programmes, and the raising of existing programmes to adequate standards. The units engaged in these services undertake, as well, specific research programmes.

Preventive Measures

There are three programmes which have as their purpose the prevention of disease, all carried out by various units of the Department of National Health and Welfare. The first is concerned with examining people, ships and aeroplanes to ensure that communicable diseases are not brought into the country; that immigrants meet proper health standards; and that civilian air personnel are in good physical condition. Some 350 medical staff are employed across Canada and in certain countries abroad.

The second programme, administered by the Food and Drug Directorate, is designed to control the safety, purity and quality of foods, drugs, cosmetics and therapeutic devices sold or manufactured in Canada. A staff of about 400 are engaged in this work throughout Canada.

Table 1—COSTS OF HEALTH PROGRAMMES[1]—1961-62—(Estimates—$ millions)

	Expenses			
	Operating	*Construction*	*Revenue*	*Net Cost $ millions*
Medical Care and Hospitalization to Specific Groups				
Veterans[2]	68.4	5.3	16.8	56.90
Indians, Eskimos and population of Territories	22.9	2.1	2.5	22.50
Servicemen[3]	37.0	—	1.2	35.80
Lepers, Seamen, Inmates of federal penitentiaries[4]	.8	—	.5	.30
SUB-TOTAL	129.1	7.4	21.0	115.50
Preventive Programmes				
Food and Drugs	2.6	—	—	2.60
Emergency Health	6.7	—	—	6.70
Quarantine and Immigration[5]	3.0	—	—	3.00
Civil Aviation Medicine	.2	—	—	.20
SUB-TOTAL	12.5	—	—	12.50
Promotion of Public Health				
Consultant and Advisory Services	3.7	—	—	3.70
Civil Service Health	.5	—	—	.50
SUB-TOTAL	4.2	—	—	4.20
Research				
Department of Veterans Affairs	—	—	—	.40
National Health Grants (National Health and Welfare)	—	—	—	5.70
Defence Research Board	—	—	—	1.60
Medical Research Council	—	—	—	3.30
The Queen Elizabeth Fund for research into diseases of children	—	—	—	.05
SUB-TOTAL	—	—	—	11.05
Other Health Costs				
Administration—Dept. National Health and Welfare (one-half of total)	—	—	—	.90
National Health Grants (Dept. National Health and Welfare) (less research grants)	—	—	—	24.30
Hospital Construction Grants (Dept. National Health and Welfare)	—	—	—	17.00
Contributions to provinces under Hospital Insurance and Diagnostic Services Act	—	—	—	270.00
Grants to Health Organizations (Dept. National Health and Welfare)	—	—	—	.20
SUB-TOTAL	—	—	—	312.40
GRAND TOTAL COST				455.65

[1]These figures are estimates, compiled from various sources by Commission staff. Precise figures, particularly in the case of the Armed Forces, are not available.

[2]Includes Prosthetics Services, salaries of medical personnel only for Canadian Pension Commission, and three-quarters of cost of D.V.A. Administration Branches.

[3]Dental Corps not included.

[4]Costs for services to lepers included with Quarantine and Immigration (costs very small).
Costs for staff salaries Sick Mariners' services included with Quarantine and Immigration. Salary costs only shown for services to inmates of federal penitentiaries.

[5]Includes also expenses for lepers and salary costs of Sick Mariners' services.

Table 2—FEDERAL PERSONNEL ENGAGED ON HEALTH PROGRAMMES[1]—1961-62

	Doctors	*Nurses*	*Others*	*Total*
Medical Care and Hospitalization to Specific Services[2]				
Veterans[3]	210	1,670	9,940	11,820
Indians, Eskimos plus population of Territories	110	630	1,830	2,570
Servicemen[4]	460	500	3,780	4,740
Inmates of federal penitentiaries	4	—	—	4
SUB-TOTAL	784	2,800	15,550	19,134
Promotion of Public Health				
Consultant and Advisory Services	30	—	406	436
Civil Service Health	6	50	26	82
SUB-TOTAL	36	50	432	518
Preventive Programme				
Food and Drugs	1	—	372	373
Emergency Health	4	—	38	42
Quarantine and Immigration[5]	107	60	169	336
Civil Aviation Medicine	5	—	12	17
SUB-TOTAL	117	60	591	768
Other[6]	—	—	175	175
TOTALS	937	2,910	16,748	20,595

[1]These figures represent authorized establishment, not actual strength—strengths are in most cases lower, particularly in the Canadian Forces Medical Services.

[2]Figures rounded.

[3]Includes doctors attached to Canadian Pension Commission (58), and three-quarters staff of Departmental and District Services Administration units.

[4]Dental Corps not included.

[5]Includes staff for services to lepers and seamen.

[6]One-half of Administration Branch staff, Department of National Health and Welfare.

The third programme is one of assisting provincial and municipal governments to organize, prepare and operate health facilities for use in national emergencies. This function is carried out by 42 members of the Emergency Health Services Division.

COSTS AND PERSONNEL

In Table 1 the costs of the various health programmes are shown, with a subdivision into operation and construction costs, grants and research funds The number and salary costs of staff are listed in Table 2.

2

MEDICAL CARE AND HOSPITALIZATION OF SPECIAL GROUPS

The special groups for whom the federal government assumes responsibility in health matters number more than half a million people. Their medical care is provided by the Departments of National Health and Welfare, Veterans Affairs, National Defence, and the Office of the Commissioner of Penitentiaries.

These health services must be viewed against the background of the recent substantial development of community health services. Until the post-war period, medical and hospital care in Canada was not well organized. Government controls and support were minimal and standards of medical care varied widely. Hospitals were hard put to balance their budgets; stability in operating income was not to come until the late 1950's, with the advent of the Hospital Insurance and Diagnostic Services Act, which provided for federal-provincial support for hospitalization.

In the face of a general shortage of hospital facilities in Canada in the post-war period, the federal government, enlarging from year to year its area of accepted responsibility, had no alternative but to undertake construction of hospitals on a large scale. Having built the necessary facilities, it has proceeded to operate them as federal institutions (*see* Table 3).

Most of the accommodation consists of active treatment beds, with all the diagnostic and ancillary services required for acute cases. The cost of this programme is not readily ascertainable, but the present replacement value of the federal hospitals is upward of $250 million.

Developments in the past ten years have substantially altered the picture. Under the stimulus of generous construction grants, community facilities have

Table 3—FEDERAL HOSPITALS—RATED BED CAPACITY, DECEMBER, 1961[1]

Hospital	*Location*	*December 1961 Rated Bed Capacity*
	Department of Veterans Affairs	
Camp Hill	Halifax, N.S.	410
Lancaster	Saint John, N.B.	400
Ste. Foy	Quebec City, P.Q.	325
Queen Mary	Montreal, P.Q.	700
Ste. Anne's	Ste. Anne de Bellevue, P.Q.	1,200
Sunnybrook	Toronto, Ont.	1,563
Westminster	London, Ont.	1,520
Deer Lodge	Winnipeg, Man.	640
Col. Belcher	Calgary, Alta.	400
Shaughnessy	Vancouver, B.C.	950
Veterans Hospital	Victoria, B.C.	300
Regina General[2]	Regina, Sask.	186
University of Alberta Hospital[2]	Edmonton, Alta.	318
TOTAL D.V.A. BEDS		8,912
	Department of National Health and Welfare, Indian and Northern Health Services	
Frobisher Bay	Frobisher, N.W.T.	13
Lady Willingdon	Oshweken, Ont.	36
Moose Factory	Moose Factory, Ont.	168
Sioux Lookout	Sioux Lookout, Ont.	72
Assiniboine[3]	Brandon, Man.	227
Clearwater Lake[3]	The Pas, Man.	155
Fisher River	Hodgson, Man.	15
Fort Alexander	Pine Falls, Man.	16
Norway House	Norway House, Man.	39
Fort Qu'Appelle	Ft. Qu'Appelle, Sask.	104
North Battleford	N. Battleford, Sask.	50
Blackfoot	Sleichen, Alberta	27
Blood	Cardston, Alberta	39
Charles Camsell	Edmonton, Alta.	480
Hobbema	Hobbema, Alta.	16
Inuvik	Inuvik, N.W.T.	100
Whitehorse	Whitehorse, Yukon Terr.	120
Coqualeetza	Sardis, B.C.	187
Miller Bay	Prince Rupert, B.C.	175
Nanaimo	Nanaimo, B.C.	200
TOTAL I.N.H.S. BEDS		2,234

Hospital	Location	December 1961 Rated Bed Capacity
Department of National Defence[4]		
R.C.A.F. Station	Goose Bay, Labrador	35
Can. Forces Hospital	Halifax, N.S.	150
R.C.N. Hospital	H.M.C.S. Cornwallis, N.S.	35
Can. Forces Hospital	Rockcliffe, Ont.	125
Can. Forces Hospital	Ottawa, Ont.	320
Can. Forces Hospital	Kingston, Ont.	125
Ft. Churchill Hospital	Ft. Churchill, Man.	70
R.C.A.F. Station	Cold Lake, Alta.	50
R.C.N. Hospital Naden	Esquimalt, B.C.	100
Canadian Section, B.M.H. Iserloka	West Germany	125
R.C.A.F. Hospital 3 Fighter Wing	West Germany	70
TOTAL D.N.D. BEDS		1,205
TOTAL ALL DEPARTMENTS		12,351

[1]Infirmaries on military bases and in penitentiaries are excluded. Table completed by Commission staff, and based on departmental returns.

[2]The beds specified are in veterans pavilions which, although attached to and dependent upon public hospitals for certain services and facilities, are owned and largely staffed by the Department of Veterans Affairs.

[3]These institutions are operated by the Sanitarium Board of Manitoba for the Indian and Northern Health Service. The Assiniboine Hospital is soon to be transferred to Manitoba.

[4]In addition to the hospitals specified under the Department of National Defence, it operates and staffs wards for military personnel in three D.V.A. hospitals. The number of D.N.D. beds (which are included in the total shown for each hospital) are 77 in Ste. Foy, 83 in Sunnybrook, and 43 in Westminster Hospital.

been greatly enlarged through the provision of additional hospital beds. The jointly financed hospital insurance plans have all but cured the deficit operations of community hospitals, and the standard of care has risen appreciably and become more consistent across the land. Most significantly, the great bulk of the population has gained access to hospital service as a matter of right and at a very modest personal cost.

WAR VETERANS

The Canadian Expeditionary Force in the first World War suffered heavy casualties. It became apparent that existing hospital accommodation in Canada was insufficient to care for the seriously wounded through their period of recovery. To meet this need, federal hospitals were established in various parts

of Canada. The expectation that they would be needed for a limited period was reflected in the conversion of some old buildings to hospital purposes and the building of new semi-permanent structures. This hope proved illusory, and at the outbreak of World War II many of these facilities, by then seriously inadequate, were still in active use.

It was expected that the casualties of World War II would be substantially more than in the earlier conflict. Fortunately, in spite of a heavier enlistment, this assumption proved false. However, a programme of new hospital construction was undertaken on a large scale, and since the end of the war the older hospitals have been either replaced or largely rebuilt. Currently there are eleven veterans' hospitals, with a total capacity of 8,408 beds. There are, in addition, veterans' pavilions attached to two general hospitals, two health and occupational centres with 385 beds, and two homes accommodating 135 veterans.

The standards of medical care in these hospitals have been high. The hospitals have always operated between the wars with local practitioners serving on a part-time basis for modest fees. With the expanded programme resulting from World War II, the major element of professional care is still supplied, again on a part-time basis, by leading members of the medical profession. The affiliation of many of these hospitals with local medical schools and their consequent involvement in teaching and research guaranteed a standard of care equal to that in the best of the hospitals in the country. However, for reasons mentioned later, this situation is not likely to endure.

Supplementing the present attending and consulting staffs in veterans' hospitals are 165 employed doctors, 35 dentists and 1,650 nurses. These, together with administrative and service personnel totalling 8,600, are civil servants.

The annual cost of operating the veterans' hospital programme is approximately $50 million. This does not include charges to votes of other departments or indirect costs, but it does include the cost of care of certain veterans who enter public hospitals because access to a federal hospital is not readily available.

The original aim was to provide for the grievously wounded. Treatment facilities in the expanded programme resulting from World War II were designed for the care only of veterans with pensionable disabilities. Today, however, the class of patient and the nature of the malady of the typical case in hospital are radically different. No less than seventy per cent of the case load now consists of chronic cases or those in need of no more than domiciliary care. Under existing policies this percentage will progressively

increase. In the main, chronic and domiciliary care is being provided to veterans whose fighting days ended in 1918 or earlier. The veterans of World War II and Korea, in substantially greater numbers, have still to come. Without any further liberalization in the conditions of entitlement, and assuming a recurrence of past patterns, it is estimated by officers of the Department of Veterans Affairs that the case load will double, with the peak to be reached in 1980 (*see* Table 4). Thereafter numbers will decline

Table 4—PROJECTION OF MALE VETERAN POPULATION FROM 1951-1981 AND VETERANS ENTITLED TO TREATMENT UNDER VETERANS TREATMENT REGULATIONS FROM 1961-1981.

Year	*Disability Pensioners*[1]	*Veteran Recipients*[2]	*Veterans Living*
		(thousands)	
1951	162	31	1,170
1956	160	37	1,117
1961	153	49	1,051
1966	137	46	970
1971	118	47	876
1976	97	55	770
1981	77	79	656

[1]Entitled to treatment for service incurred disabilities.
[2]Entitled to medical care and hospitalization.

Table 5—EXPENDITURE FOR HOSPITAL CONSTRUCTION, YEARS ENDING MARCH 31, 1951-1961, AND PROJECTED EXPENDITURES TO 1968.

Year	*Expenditure*	*Year*	*Expenditure*
1951 (Actual)	$3,008,426.00	1960 (Actual)	$3,742,116.00
1952 (Actual)	3,267,190.00	1961 (Actual)	5,407,272.00
1953 (Actual)	3,550,182.00	1962 (Forecast)	4,670,000.00
1954 (Actual)	3,552,837.00	1963 (Estimated)	3,800,000.00
1955 (Actual)	3,265,330.00	1964 (Projected)	4,180,000.00
1956 (Actual)	3,094,780.00	1965 (Projected)	5,300,000.00
1957 (Actual)	3,989,162.00	1966 (Projected)	4,600,000.00
1958 (Actual)	2,642,769.00	1967 (Projected)	4,200,000.00
1959 (Actual)	2,703,597.00	1968 (Projected)	1,400,000.00

NOTE: The projected expenditures for fiscal years 1963-1968 include 14 million dollars for construction of improved facilities at Montreal, Ste. Anne de Bellevue and Saskatoon. The construction planned for these locations will replace obsolete and inadequate facilities but does not represent any increase in total accommodation.

rapidly and demand will disappear in a few years. The veterans' hospitals, containing upward of 16,000 active treatment beds (unless present policies are changed), will then become surplus to government requirements.

The capital outlays ahead are formidable sums to contemplate: 8,500 new beds at present costs of $23,000 each will require a minimum expenditure of nearly $200 million (*see* Table 5). Operating budgets may be expected to more than double in view of the steadily rising costs of hospital operation. Expenditures of this magnitude to provide active treatment beds to house chronic and homeless veterans appear unwise from every standpoint. The cost of providing suitable accommodation and care in properly designed domiciliary institutions represents fifty per cent or less of the capital investment required, and a smaller percentage of the operating costs of active treatment hospitals.

Further consequences of the change in the nature of the patient population of these hospitals have serious implications both for operating costs and the quality of medical care available. As the case load changes, the difficult and challenging problems resulting from combat disabilities give way to the routine chores of caring for a group of elderly males suffering from chronic illness, senility or general decrepitude. Such cases have limited medical interest and little value for teaching purposes. The probability is that, progressively, medical care will have to be provided by fully-employed doctors. If so, costs will rise materially and the standard of care is bound to decline. As matters now stand, the prospect is that by 1980:

- An additional $200 million will have been spent to double the present bed capacity.
- The operating budget will have risen to over $100 million annually.
- The hospitals will be almost wholly occupied by patients requiring only domiciliary care.
- The quality of medical care will have fallen from the high standards originally achieved.

Reference has been made to the original intent that these hospitals should serve the war veteran who returned to Canada with service-incurred disabilities. Today this group represents but ten per cent of the patient population and the proportion continues to decline. Over the years the doors have been thrown open to a wide range of non-service disability cases, and some members of other groups for whom the government assumes direct responsibility have been admitted to keep up hospital occupancy. The average case

load in these hospitals today subdivides broadly into the three following categories:

Veterans with service disabilities (but not necessarily being treated for such disability)	10%
Veterans admitted as pay or part-pay patients; sick and injured members of the Armed Forces and the R.C.M.P.; Indians, Eskimos, sick mariners, etc.	25%
Veterans in receipt of war veterans' allowances (low income veterans)	65%
	100%

Currently, the majority are World War I veterans who are in hospital for reasons other than war disabilities. The *Department of Veterans Affairs Act* permits the Governor in Council to define the persons who may be admitted to the hospitals and, as beds available progressively out-numbered the requirements for war disability cases, Orders in Council have broadened eligibility for admittance and free treatment. It is not inappropriate to regard the situation as out of balance. Since 1957-58, provincial hospitalization insurance plans (supported by federal contributions) have offered protection to all Canadians whenever the need for hospitalization arises. Where domiciliary care, as in this instance, is the primary need, it is generally agreed that it is a costly misapplication of facilities to provide such care for extended periods of time in acute-care hospital beds.

As the problem of care for the old without adequate means has developed in respect of veterans, so has it been increasingly accepted as a community responsibility for the population at large. Prompted finally by the need to exclude such persons from active treatment community hospitals in order to accommodate the seriously ill, and assisted by the increases in old age pensions, there has been a growing programme of facilities for domiciliary care of the indigent. Federal policy must take note of this trend and, from every point of view, the avoidance of further duplication of facilities is to be desired. The interests of the federal government and the communities coalesce at another point—in the existence of over 6,000 active beds in federal hospitals not occupied by acute cases while, in most communities, there is still a substantial shortage of such accommodation.

Should accommodation in the federal hospitals again be restricted to veterans with pensionable disabilities, one of the larger existing hospitals could

theoretically accommodate them all. For geographical reasons, such a solution is impracticable. However, patients in this category are already being accommodated in public hospitals at federal expense and such practice might be advantageously extended, with a view to bringing about a reasonable consolidation of federal hospital activities, which would make much needed acute facilities available to communities.

The more immediate problem is, of course, the chronic and domiciliary care class, both present and future. The extent of federal responsibility is a question of policy; your Commissioners are concerned only with the means adopted to carry out policy. It is difficult to imagine a more costly solution than that embodied in present practice. Your Commissioners' first conclusion is that there should be no further construction of active treatment hospitals. To the extent that federal responsibilities dictate new construction, it should be of the domiciliary institution type. In view of the limited period in which these facilities will be required by veterans, they should be either of temporary construction or designed for adaptation to general community needs.

Of these alternatives, the latter appears to your Commissioners to be preferable. The *British North America Act* assigns to the provinces "the establishment, maintenance, and management of hospitals, asylums, charities, and eleemosynary institutions in and for the province, other than marine hospitals." Experience built up in this type of care has largely been achieved as a result of the work of the Department of Veterans Affairs. It would seem logical for the Department of Veterans Affairs to undertake further study in the field of domiciliary care facilities. The total load of patients required would not be great and they could be selected from the original group covered—the pensionable veteran. To the degree that there is federal responsibility for the aging and indigent veteran, it would seem more appropriate that the government contribute towards construction of the appropriate facilities by local authority or the provinces, rather than undertake further construction itself to meet a transient need.

The policy envisaged is a gradual integration of federal and community facilities and the eventual withdrawal by the federal government from the operation of veterans' hospitals, hostels or homes. There is no doubt that hospital care in provincially supervised institutions has reached an adequate level for any treatment needs of those veterans with service-incurred disabilities—a class for which the federal government must have the most direct concern. Moreover, in the process of integration, the transfer of federal facilities can be made on terms that assure priority of admission for this group.

Because of the varying conditions in communities where federal hospitals are situated, the problem will have to be approached city by city. An opportu-

nity for integration now exists in Victoria, B.C., where the Armed Forces have immediate need of 100 to 125 active beds. There is a veterans' hospital in the city with 300 such beds, at present occupied to the extent of eighty per cent by chronic or domiciliary care cases. An effective solution which would avoid construction of a new Armed Forces active hospital is to be found by turning over the veterans' hospital to the community, reserving the necessary accommodation for Armed Forces personnel on a priority basis, and erecting a suitable institution to provide, under community management, domiciliary care for the displaced veterans and possibly others. The gains to all would be substantial.

We therefore recommend that:

1 No further hospitals be constructed by the government as active treatment hospitals for war veterans.

2 Progressively, the treatment of veterans with pensionable disabilities be transferred to public hospitals, with the cost borne by the federal government.

3 Veterans with major pensionable disabilities, who require chronic or domiciliary care, continue to be a federal responsibility.

4 Veterans without major pensionable disabilities now receiving chronic and domiciliary care at public expense be progressively transferred to community facilities under such financial arrangements as may be expedient.

5 Active treatment hospitals now operated by the Department of Veterans Affairs, when cleared, be sold and converted into community hospitals under transfer agreements providing preferential admission rights for veterans with pensionable disabilities.

INDIANS AND ESKIMOS

The Indian and Northern Health Services of the Department of National Health and Welfare are responsible for medical and public health services for most of the 185,000 Indian and 11,500 Eskimo residents of Canada. Within

the limitations of resources and available working conditions, the Services attempt to bring to this population facilities available to the general public through private physicians, municipal public health units, and public hospitals.

The extent and nature of the responsibility of the federal government to provide free health services for Indians in populated areas of the country is not clearly defined. Neither the *Indian Act* nor other statutes refer specifically to native health services, and the established arrangement owes its existence solely to annual appropriations by Parliament. At least one Indian Treaty requires that the Government of Canada maintain medicine chests at the homes of Indian Agents, and that these be used at the discretion of the Agents. In practice, however, any Indian or Eskimo living on a reserve or Crown lands can today obtain medical and hospital care at little or no personal expense.

Initially, health care was given by Army physicians and missionaries. In 1908 a few public health nurses were employed by the Department of Indian Affairs, an arrangement which marked the beginning of the present Indian Health Services. An organized medical service was founded in 1928 and expanded slowly during the next nine years. By 1937, tuberculosis had virtually reached epidemic proportions among the Indian population. The annual death rate from this disease alone was 2,000 per 100,000 population, and at this point federal government activity was stepped up. In 1945, the Medical Service was removed from the Indian Affairs Branch to the Department of National Health and Welfare and, in 1954, the responsibility for Northern Health Services was added. The growth has continued, and a budget of less than $1 million in 1937 increased to $23 million in 1960-61.

The Indian and Northern Health Services are now charged with the responsibility for providing hospital services to Indians and all residents of the Territories. The hospital services fall naturally into three groups:

- Hospital services for Indians within the provinces, which are provided in various ways. In several parts of Canada, Indians are hospitalized in community hospitals where they are, for the most part, freely accepted. In other areas, hospitals owned, operated and staffed by the Indian and Northern Health Services provide care exclusively for Indians; the majority are located in regions where community hospitals capable of caring for Indians already exist.
- Hospital services available to the general public in areas where community services do not exist. The Northern Health programme is intended to provide, in the Yukon and Northwest Territories, the same services as a provincial health department.

- Hospitals operated as referral centres for the native populations. These hospitals, all within the provinces, of which the Charles Camsell in Edmonton is the best and largest, serve as:

  a. Referral centres for problem cases in the Indian and Eskimo populations.

  b. General hospitals for Indians in the immediate vicinity.

  c. Holding units for native patients who, while recovered from acute conditions, are not yet ready to return to a rigorous environment.

Medical and dental care is provided to all Indians within the provinces and to Indians, Eskimos and other residents of the Territories. Although the native population expect this service to be free, an attempt is made to collect moderate fees from those financially able to pay.

The Indian and Northern Health Services, with 2,568 authorized personnel, operate eighteen hospitals* with a total rated capacity of 1,882 beds, approximately evenly divided between tuberculosis and general treatment. In addition, many small medical treatment units, nursing centres, and public health units are operated.

Too frequently, the quality of care in Indian and Northern Health Services hospitals is not comparable with that provided in community hospitals in the same area. The hospital facilities are generally old, ill equipped and inadequately staffed; moreover, it is evident that the Department finds it hard to get suitable personnel, particularly in the lower ranks.

Of the 117 physicians who have joined the Department of National Health and Welfare in the past five years, forty-seven per cent are graduates of foreign medical schools. Many of them have not passed their Canadian licensing examinations and are therefore not qualified for private practice. The Canadian physicians joining the service in the same period averaged 40 years of age. The great majority of these had left private practice. The Department always has unfilled posts, and few young Canadian graduates show any interest because of the remoteness of places of employment, the ill equipped hospitals, and limited opportunities for career development.

There is no evidence that the very significant number of Indians who depend for health services on ordinary community facilities are receiving care inferior to that supplied by Indian and Northern Health Services facilities. The intro-

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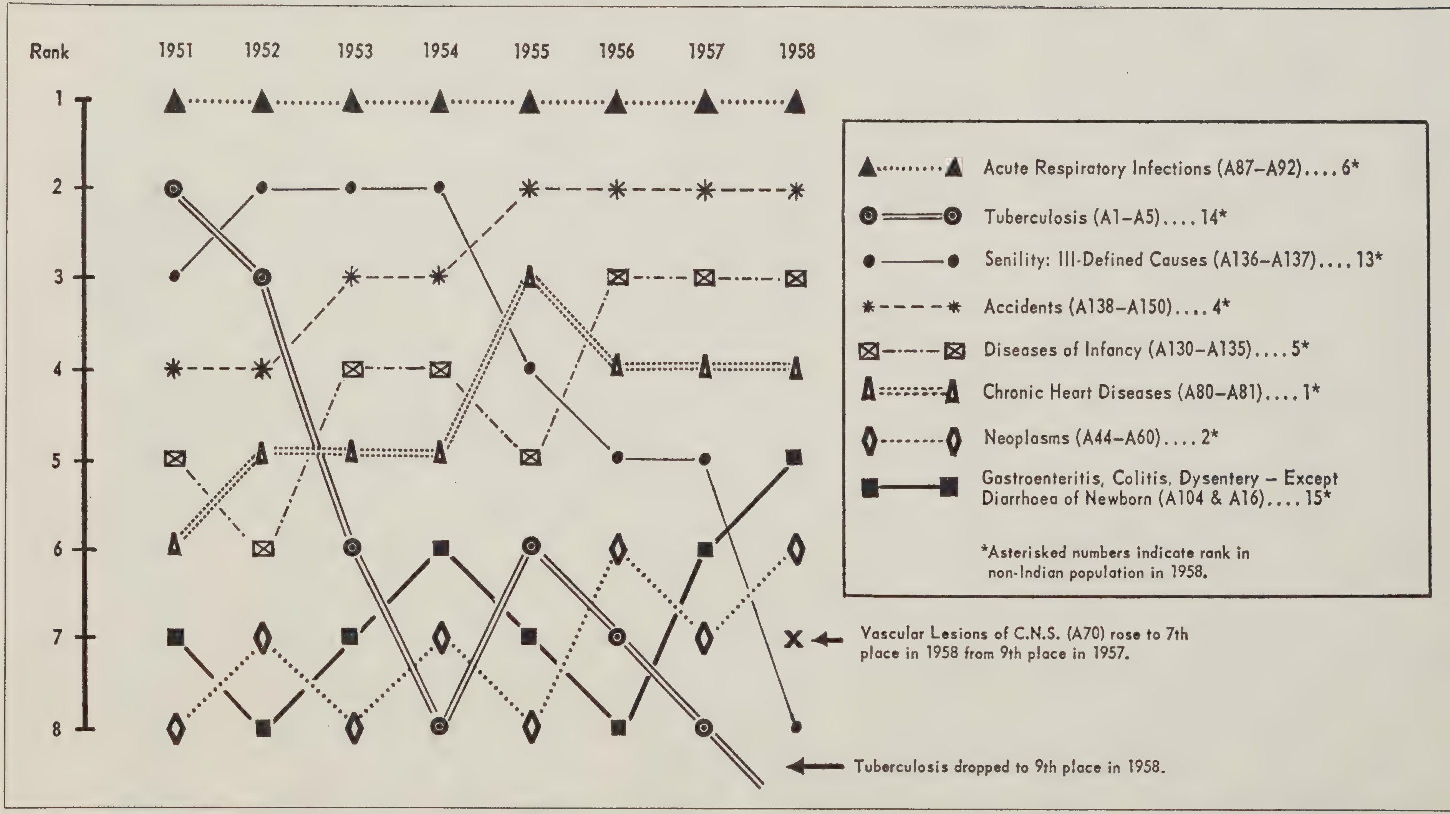
*The Assiniboine Hospital at Brandon (227 beds) and the Clearwater Lake Hospital at The Pas (155 beds) are operated for the Indian and Northern Health Service by the Sanatorium Board of Manitoba. The transfer of ownership of the former to Manitoba is now being negotiated.

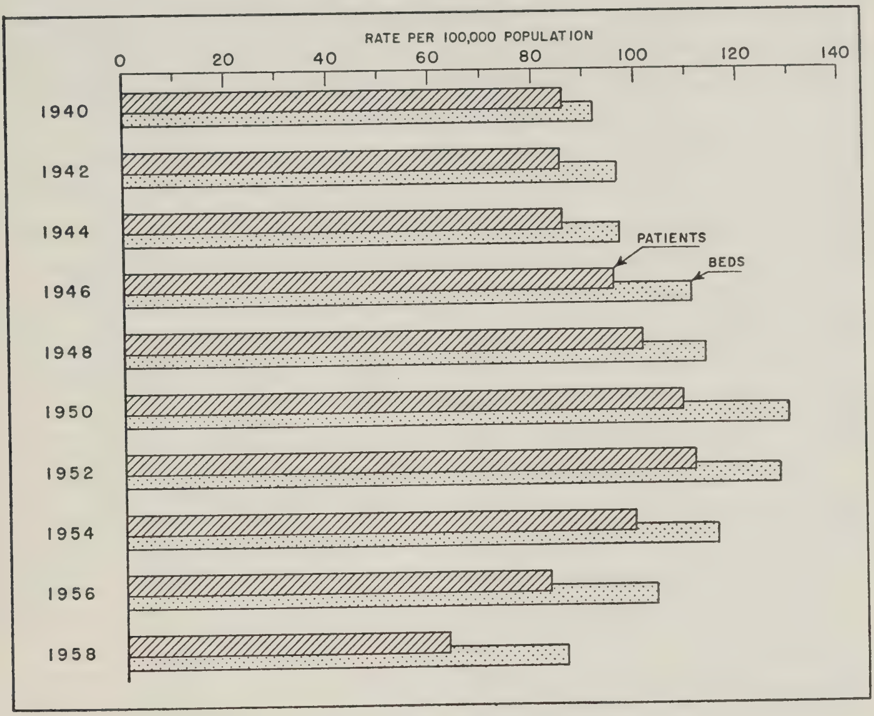
Chart 1—SELECTED CAUSES OF INDIAN MORTALITY BY RANK, 1951-1958*



* Annual Report, Department of National Health and Welfare, 1960.

duction of government supported hospitalization for all citizens also provides native people with easy access to hospitals. The cost of pre-paid insurance premiums, even when borne by the federal government, is an economical means of providing hospital care. Similarly, the existence of many pre-paid insurance plans for physicians' services makes medical care relatively simple for either the Indian himself or the government to arrange.

Chart 2—PATIENTS IN TUBERCULOSIS SANATORIA AND BED CAPACITY*



* Canada Year Book 1960.

Tuberculosis has long been a major cause of illness and death to the native people, and many of the present-day services arose from the need to combat this disease. However, since 1937, the annual death rate from tuberculosis has been reduced from 2,000 per 100,000 population to 40 per 100,000, and from 1951 to 1958, tuberculosis, as a cause of Indian mortality, fell from second to ninth rank (*see* Charts 1 and 2). Compared to the 1959 death rate of 5.5 per 100,000 persons in the general population, the disease is still serious but, as a problem peculiar to native people, it is no longer of critical significance.

The integration of Indians with the general population is being vigorously promoted by the Indian Affairs Branch of the Department of Citizenship and Immigration, particularly in the education of Indian children. In health services the possibilities of successful integration have been amply demonstrated in several parts of Canada. In fact, in some of the provinces separate facilities for Indians have never existed. The conclusion is unavoidable that, from the standpoint of convenience and expense, as well as the quality of care, the use by Indians of established community facilities is highly to be desired.

The express policy of the Department of National Health and Welfare is to turn over the responsibility for medical care for Indians to the provinces, but progress is slow and more positive promotion of the policy is required. The declining tuberculosis rate makes it probable that all Indian cases could be looked after in provincial sanatoria within a very few years. Obviously, some time will elapse before hospital services in unorganized remote areas can be assumed by the community, but immediate steps should be taken to end the duplication of facilities in the more populous areas of the provinces.

The hospitals used as referral centres (for example, Charles Camsell in Alberta, and Coqualeetza in British Columbia) present a more difficult problem. The excellent work of the Charles Camsell hospital with native patients has earned for it an enviable reputation. Its existence, serving only Indian and Eskimo patients, has made the prospect of hospitalization reasonably acceptable to shy Indian and Eskimo patients who might have been less responsive to treatment, particularly long-term tuberculosis treatment, in a setting where they were in the minority among white patients. Nonetheless, the need for this segregation is passing. Indians in southern Alberta are treated in an integrated tuberculosis sanatorium, and no serious problems have been encountered.

There are strong indications of diminishing need for these hospitals. The Camsell hospital's 480 beds were well filled until two years ago, but in 1960 the hospital had only a seventy-five per cent occupancy. At the Coqualeetza hospital occupancy is falling and the length of stay increasing—an indication of lack of pressure for beds. These hospitals are expensive to operate. As a result of the difficulty of attracting interns and residents, work normally assigned to such staff is done by more expensive full-time medical staff. At the Camsell hospital, the high quality of professional care results principally from the strong university affiliation. Senior members of the teaching staff at the University Hospital in Edmonton act as consultants and manage problem cases. This has been achieved although the two hospitals are several miles apart.

The Department does not, regrettably, plan to relinquish these referral hospitals. In fact, an immediate rebuilding of the Camsell hospital on its present site is planned, at a cost of over seven million dollars, and a further building programme for Coqualeetza is in prospect. Your Commissioners were not convinced by the arguments in support of these plans. Cases of tuberculosis now make up two-thirds of the patients at the Camsell hospital. The majority of these could be cared for in empty beds in sanatoria in the provinces. The tuberculosis cases from the Territories could be treated either in local hospitals or brought to sanatoria in adjacent provinces.

Excluding tuberculosis cases, the present patient load on Camsell is about 120 patients. These could be cared for in the University Hospital, Edmonton, or other hospitals in the region. Should it be deemed essential to continue some segregation of Indians and Eskimos for a further period, it would be desirable to consider building an addition to the University Hospital in Edmonton of, say, 100 beds. This would provide professional medical care by the staff of the University Hospital on a more satisfactory basis than at present. It would mean that many of the present fifteen full-time staff members could be replaced by interns and residents at a lesser cost. Apart, however, from the monetary savings and the standard of care, the building of a large new segregated hospital for natives is inconsistent with the policy of integration actively pursued by the Indian Affairs Branch of the Department of Citizenship and Immigration, and somewhat less enthusiastically subscribed to by the Department of National Health and Welfare. In health matters, the progress toward full integration, already less rapid than desirable, is bound to be affected for many years by a large new investment in segregated hospital facilities.

Much of the very real progress which has been made in reducing disease in the native population has been due to the educational efforts of public health nurses. This aspect of the service should not be curtailed in any circumstances. However, there is evidence that such nursing service within the provinces could be taken over by provincial nurses. In many instances, provincial nursing staffs are located in towns near reserves and could provide care to Indians more economically than under the present arrangements. This would not be true in the Territories and remote areas, where a strengthening of the special service is justified.

We therefore recommend that: 1 A positive programme be developed for the more rapid transfer of Indian health care to normal community facilities in populated areas of the provinces.

2 Where possible, medical and dental care be arranged through private practicing physicians and dentists (with the federal government bearing the cost of pre-paid medical plans where necessary).

3 The referral hospitals, Charles Camsell at Edmonton, and Coqualeetza at Sardis, B.C., be neither rebuilt nor extended.

SERVICEMEN

Before 1958 each of the Armed Services had its own medical branch. In that year orders were issued to integrate the three medical services into a single Canadian Forces Medical Services. This group comprises over 4,700 personnel and its cost, excluding capital construction, is estimated at over $35 million in 1962-63. Apart from a large number of "sick bays" or infirmaries, eleven hospitals with a total capacity of 1,205 beds are operated. Certain problems have delayed the completion of the integration programme. More detailed comment on these difficulties is contained in the report on *The Department of National Defence*.

In the field of medical care, the Armed Forces have certain obvious requirements that must be met from their own resources. Aside from succouring the wounded in time of war, provision must be made for personnel in barracks, afloat, or located in isolated areas. In general, the existing system of infirmaries and sick quarters must continue to be staffed and maintained for such purposes, and the Armed Forces must carry on their strength qualified doctors, nurses, and other specially trained personnel.

The needs of the Armed Forces within Canada in peacetime, however, do not necessitate the operation of special acute treatment hospitals of their own. The character of war, with its present nuclear hazard, invalidates the concept of yesterday under which the creation of hospital capacity for war wounded might have appeared a farsighted precaution. An argument may be advanced that the ability of Service doctors to practise in their own hospitals is necessary to the achievement of a suitable degree of professional competence, as well as for a desirable effect upon *esprit de corps* generally. While this contention may have some validity, your Commissioners see no compelling reason why Service personnel who are in need of hospitalization in peacetime should not be treated in community facilities.

At present, a number of acute treatment hospitals are operated by the Services for the use of military personnel in areas that already have well

developed community hospital facilities. As previously mentioned, consideration is currently being given to the construction of new Service hospital facilities in Victoria, B.C.

Under provincial hospitalization insurance plans, Service personnel are entitled to hospitalization in whichever province they are located, and, in the view of your Commissioners, community facilities should be employed in preference to the creation of segregated institutions. This view is reached not only from considerations of cost and quality of medical care, but in the belief that the establishment of a system of Service hospitals across Canada constitutes an unnecessary elaboration of the responsibilities of the Armed Forces, which affords no significant advantages.

We therefore recommend that:

1 The hospital care of Service personnel in Canada be gradually transferred to civilian hospitals, and no building of new Service hospitals or replacement or enlargement of existing institutions be undertaken.

2 Vigilance be exercised to prevent the expansion of sick quarters and infirmaries into more sophisticated treatment centres in areas where community hospitals exist.

3 The Canadian Forces Medical Services be allocated 100-125 beds in the Department of Veterans Affairs Hospital, Victoria, pending complete integration of Service and community needs, and the Royal Canadian Navy Hospital, Naden, be abandoned.

While it is apparent that the training of specialists in the Armed Forces in recognized clinical fields of medicine is satisfactory, there is evidence that insufficient emphasis is being given to aero-medicine. In the Royal Canadian Navy there is a need for increased knowledge of the effects of underwater environment. The Services might well give greater attention to the medical aspects of abnormal environments, which are becoming increasingly significant. A number of medical officers sufficient to manage the resultant problems must receive the necessary training.

A subsidy programme to encourage medical students to enter the Armed Services has been in effect for several years. The present programme finances

them through four years (three years of medical school and one year of internship). A married student can obtain a total of $16,386 in a period of 45 months, in return for which he must give three years of service at the rank of army captain. This subsidy programme is undoubtedly generous but might be more productive if aid were given for four years of medical school and not for the internship year, when at least some funds are available from other sources. Moreover, because this programme starts only in the second year of medical school, its existence is often known only to individuals who have already entered medicine and have presumably already arranged for the financing of their education. If the subsidy were offered from the first year, students would be attracted to medicine who, for financial reasons, would not otherwise be able to embark on a medical education.

Ancillary medical personnel in the Armed Forces have been receiving training in their respective trades in schools run separately by each Service. Only minor progress has been made in bringing them together for training. Integrated training programmes should be immediately adopted for all ancillary medical personnel.

It has been noted that the three Services have different physical standards for recruitment examinations. Physical standards must be different for individuals in special categories, (e.g. aircrew require higher physical standards), but trades common to the three Services should certainly have common standards. Such a policy is essential to satisfactory operation of the tri-service recruiting units.

OTHER GROUPS

Inmates of Federal Penitentiaries

Five federal penitentiaries have a total "maximum security" capacity for 4,365 inmates. All penitentiaries have facilities with less rigorous security policies, which provide additional capacity for almost as many prisoners. There is a hospital unit in each penitentiary, which usually consists of offices for physicians, clinic rooms for sick parades, and special cells. In the main they are adequate but, in the Kingston Penitentiary, the thirty-five-bed hospital built in 1850 and still in use was condemned in 1938 by the Royal Commission on the Penal System in Canada.

The Director of Medical Services for Penitentiaries, based in Ottawa, travels extensively and represents the sole medical link with the penitentiaries. With few exceptions, the professional medical staff employed at the penitentiaries is part-time, and includes phychiatrists. Psychologists in the penitentiaries are not attached to the medical group but work with the classification department in attempting to evaluate the status of prisoners.

In most cases of acute illness, only medical ailments are cared for in the penitentiary hospitals. Surgical cases are referred either to the nearest Veterans hospital or to general hospitals in the community. This is expensive, for a guard must remain with the prisoner at all times.

Medical work in the penitentiaries contains a large element of psychosomatic or psychiatric medicine. Many of the prisoners require psychiatric care, but existing treatment practice is designed mainly to permit the prisoner to be treated as an inmate without creating undue problems for the penitentiary. At present, little or no attempt is made to prepare the prisoner for a more healthy approach to life after release.

Provision of more intensive psychiatric services to the inmates of federal penitentiaries is a complex problem. Prisoners are usually graduates of provincial gaols or, in many instances, of youth correctional centres, and it would seem more appropriate to apply curative psychiatric services in these earlier stages. However, there is one important psychiatric facility found in certain communities such as Toronto and Montreal which is sorely missed in others where it is not available. This is a forensic clinic whose function is to advise the court. Where such clinics operate, they usually owe their existence to the joint effort of a university and the Department of Justice. Problem cases before the courts are studied intensively for periods of ten days to a month, and correctional programmes are based on results of the studies.

The use of part-time medical professional personnel in the penitentiaries seems justified. The problems encountered in such institutions are highly specialized and, in the main, restricted. Full-time physicians would be neither content nor productive in such an environment.

Seamen

Part 5 of the *Canada Shipping Act,* which antedates Confederation, was designed to provide medical, surgical and hospital benefits for crews of foreign ships. Over the years, these benefits have been extended to other groups: first, to foreign fishermen arriving in Canadian ports; then to the crews of Canadian vessels which touch foreign ports; and finally to Canadian fishermen. In return for a very small charge, based on the ship's tonnage, the local Customs Office certifies that the crew of a particular vessel is entitled to these benefits. Services are provided by the Quarantine, Immigration Medical and Sick Mariners Services of the Department of National Health and Welfare in departmental clinics and in community hospitals at federal expense.

The Act applies only to the east and west coasts of Canada and to Hudson Bay, extending inland as far as Montreal in the east, and to coastal ports

only of British Columbia in the west. The extension of the St. Lawrence Seaway into Ontario renders this arrangement somewhat illogical.

There is evidence of extensive abuse of the Act, particularly by Canadian fishermen and tug-boat operators who, because the names of the crew are not required to be listed, can secure benefits for persons other than their crews with minimum risk of detection.

The cost of the service is currently about $800,000 a year, and receipts from tonnage levies meet less than half of this amount (*see* Table 6). For Canadian fishermen, whose relatively small craft produce only a nominal contribution, the amount paid out is twenty-five times that collected.

Table 6—HEALTH SERVICES FOR SEAMEN[1]—REVENUE, EXPENDITURE AND DEFICIT CLASSIFIED ACCORDING TO TYPE OF VESSEL

Calendar Year 1960

Classification of Vessel	*Revenue*	*Expenditure*	*Deficit*	*Deficit Expressed as Percentage of Revenue*
	$	$	$	
Foreign-going	460,065.27	509,052.64	48,987.37	10
Coasting	4,522.32	8,828.10	4,305.78	95
Fishing	14,374.56	314,399.80	300,025.24	2,087
Additional expenditure not classified as to type of vessel:—	—	14,544.91	14,544.91	—
TOTAL	478,962.15	846,825.45	367,863.30	76
Government (not paying S.M. Dues) Treatment provided under Authority of P.C. 1955-4/483 T.B. 484135 up to July 31, 1960[2]	—	45,870.85	—	—

[1]Annual Report, Department of National Health and Welfare, 1961—Sick Mariners Services.

[2]On July 31st, 1960, Order-in-Council P.C. 1955-4/483, which provided free treatment to crew members of government vessels, in the same manner as for crews of ships which pay dues, was repealed and treatment arrangements became the responsibility of the employing department. As a result, the total expenditure for the year was reduced to $45,870.85 from $86,221.07, the previous year. There were 2,076 eligible crew members employed on 200 government vessels.

With the recent extension of the Seaway, which may bring about an expansion of the service, and having in mind the fact that government-supported hospitalization is now available to all Canadians, it is considered by your Commissioners that this service should be discontinued.

We therefore recommend that: Part 5 of the *Canada Shipping Act* be repealed.

The Population of the Territories

It is not to be expected that adequate medical services for residents of the Territories can be provided as a result of community initiative, and federal initiative in building hospitals will be required for many years. The new hospitals at White Horse and Inuvik, opened within the past eighteen months, represent an improvement in facilities that have been on the whole less than adequate. Plans for improving the hospitals in the District of Mackenzie should be implemented as soon as possible. As communities develop, it will obviously be desirable to transfer the operation of federal hospitals to local authority as soon as possible.

The hospital at Fort Churchill, Manitoba, now operated by the Department of National Defence but serving a part of the Territories, is inadequate in size and poorly designed. Much of the patient load comes from the Indian population, and the provision of adequate water supply and sewage disposal would do much to improve the general health situation. A new hospital should be built, preferably under the auspices of the provincial government, with such federal government financial assistance as may be appropriate.

3

PROMOTION OF PUBLIC HEALTH

All the programmes falling into this category are administered by the Department of National Health and Welfare. Section 5 of the *Department of National Health and Welfare Act* assigns to the Minister a general responsibility ". . . relating to the promotion and preservation of the health, social security, and social welfare of the people of Canada over which the Parliament of Canada has jurisdiction . . .", and then proceeds to define particular responsibilities. However, since its enactment in 1919, the federal statute has recognized provincial rights and declares: "Nothing in this Act or in any regulations made hereunder authorizes the Minister or any officer of the Department to exercise any jurisdiction or control over any provincial or municipal board of health or other health authority operating under the laws of any province."

There are two Deputy Ministers of National Health and Welfare responsible severally for the Health Branch and Welfare Branch, and jointly for seven administrative and technical divisions which provide common services to both branches. In 1961-62 the authorized staff was 5,300; 3,900 of these allocated to the Health Branch, 1,030 to the Welfare Branch, and 370 to the central administrative and technical divisions.

Until the fall of 1961, the Health Branch was composed of four services or directorates whose heads reported to the Deputy Minister of National Health and Welfare (Health). These were: Health Services; Indian and Northern Health Services; Medical Advisory, Diagnostic and Treatment Services; and the Food and Drug Directorate. The second and third of these are now being amalgamated in one Medical Services organization.

HEALTH SERVICES DIRECTORATE

This Directorate has four hundred and ninety-three classified positions, of which all except thirty-six in the Public Health Engineering Division are located in Ottawa. With thirty-four physician positions, the Health Services Directorate is responsible for administering environmental health programmes, national health grants, health insurance, international responsibilities in the field of health, and research development. There are fourteen consultant and specialist divisions, nine of which are quite small and primarily advisory in nature. These units are the Chief Nursing Consultant, and the Divisions of Child and Maternal Health, Hospital Design, Medical Rehabilitation, Mental Health, Dental Health, Blindness Control, Epidemiology, and Nutrition. The other five divisions are: Occupational Health, Radiation Protection, Public Health Engineering, the Laboratory of Hygiene, and Emergency Health. One special health programme, administered by the Medical Services Directorate, exists to meet the needs of the government's own employees. Your Commissioners' report on *Personnel Management* examines the Civil Service Health Division in some detail. In this report, comment is confined to those parts of the organization described above in which problems have been encountered.

NATIONAL HEALTH GRANTS

The National Health Grants Division co-ordinates the development of the health grant policies, the assessment of applications and the processing of payments. Almost $48 million was disbursed under nine grants in the fiscal year 1960-61. The health grant programme has been productive, but the detail required from recipient institutions and the provincial governments is excessive. These should be jointly reviewed and simplified. Consideration should also be given to placing the programme on a firmer basis in order to permit more long-term planning.

We therefore recommend that: The present reporting and accounting requirements for health grants be reviewed and simplified, and consideration be given to placing health grant programmes on a period-of-years basis.

ENVIRONMENTAL HEALTH

There are three programmes of environmental health: radiation protection, occupational health, and public health engineering. Each is carried out by a

separate division. A Principal Medical Officer is the senior staff adviser to the Director of Health Services on the three programmes.

The Occupational Health Division has grown rapidly. Its expansion was stimulated by the development of Crown corporations, whose occupational health has been regarded as a responsibility of the federal government; in all other industrial activities, occupational health is the responsibility of the provinces. The Division also provides consultant and technical assistance to government and industry, and carries out research. A central laboratory, employing fifty people, performs three main functions: it studies toxic substances encountered in industrial plants in Canada, samples air for toxic material, and does research work on the properties of substances whose effects on humans are not yet known. The work is closely related to radiation protection and public health engineering.

The Radiation Protection Division, with an authorized staff of sixty-one, fulfills similar functions in the field of radiation hazard; under a United Nations agreement, it also measures the radioactivity of rain and soil samples from several foreign countries.

The Public Health Engineering Division is, in many respects, unique among the components of the Health Services Directorate. Its primary functions are not directed to assisting the provinces, and most of its activities fall into two main categories: the administration of certain statutes and regulations, and the provision of technical advice to other components of the federal government. The chief regulatory activities of the Division are:

- The regulation of sanitary conditions and medical services for persons employed in the construction of federal public works.
- The regulation of sanitary conditions on railroad properties and ships of Canadian registry, with particular regard to the health of employees and passengers.
- The sanitary regulation of water and ice supplies on common carriers.
- The enforcement of regulations made by the International Joint Commission on boundary waters, "so far as the same relate to public Health".
- The enforcement of regulations on the sanitation and toxicity of shell-fish, in collaboration with the Laboratory of Hygiene and the Department of Fisheries.
- The inspection and analysis of water supplies for fish-packing plants, in collaboration with the Department of Fisheries.

This Division estimates that half its staff resources are expended on these inspection and regulatory functions. The remaining resources are occupied in providing public health engineering studies, advice, and designs, principally to other components of the federal government but occasionally to the smaller provinces.

The need for the regulatory functions of this Division, although at one time extremely important, seems now to have largely disappeared. Provincial departments have developed their own public health engineering groups. Federal employees in separate offices are superfluous in provinces where well-established departments are already in operation. For example, milk and water for common carriers, checked by provincial health departments, are rechecked by this Division. Most provincial departments of health have expressed a readiness to take over this function.

The need for many of the services of the three environmental health Divisions will continue to diminish as provincial and territorial departments become more complete, and constant vigilance will be required to ensure that the laboratories and other facilities necessary to provide these services do not continue to grow and take on other functions. There is a natural tendency for active, well-staffed laboratories to increase research activities as their service functions decline. Therefore, to control their growth, independent expert scrutiny of the research undertaken is necessary.

In summary, the three Divisions of Occupational Health, Radiation Protection and Public Health Engineering, all of which perform similar functions and provide services to the provinces, would function more effectively as a single Division of Environmental Health. In all three Divisions, the primary function should be to provide consultation and services to the provinces and territories.

We therefore recommend that:

1 The three Divisions of Occupational Health, Radiation Protection, and Public Health Engineering be combined into a single Division of Environmental Health.

2 Regulatory functions be left to the provinces to the maximum practicable extent.

REHABILITATION PROGRAMMES

The Blindness Control Division does excellent work with a small staff. It rules on eligibility for Blind Persons Allowances and operates a treatment

plan for those receiving allowances. The organization could be simplified and made more effective if the Division were absorbed into the Medical Rehabilitation Division, of which it is essentially a part.

The Medical Rehabilitation Division is a consulting unit in the field of medical rehabilitation, and carries on evaluation of disability under the *Disabled Persons Act*. In the former role, it assesses applications for payments under the Medical Rehabilitation Grant. The Department of Labour is charged with the co-ordination at the federal level of a comprehensive civil rehabilitation programme, but provincial co-ordinators are generally in provincial departments of health or welfare rather than labour departments. As rehabilitation is essentially a health problem up to the stage of vocational training, it would simplify administrative relations with the provinces if the Medical Rehabilitation Division were assigned responsibility for all medical aspects of the programme.

We therefore recommend that: All aspects of the medical rehabilitation programme be co-ordinated by the Department of National Health and Welfare.

OTHER ADVISORY AND CONSULTATIVE SERVICES

The functions of the Laboratory of Hygiene fall into three categories:

- Biochemical and biological research on human diseases.
- Technical services: National Reference Centre for certain groups of bacteria; production and distribution of standard solutions and diagnostic reagents; evalution of hospital laboratory techniques.
- Quality control of biological drugs in accordance with the *Food and Drugs Act* and Regulations.

The Laboratory of Hygiene is organized in seven Sections—Bacteriological, Biologics Control, Biochemical Research, Clinical, Zoonosis, Virus, and Administration. This laboratory shows signs of continued growth although provincial departments of health are developing increasingly effective laboratories. An indication of this trend is the development of significant programmes of a pure research nature in certain sections of the Laboratory. Several activities, particularly the analysis of biological drugs and the inspection of manufacturing facilities, would be more appropriately carried out by the Food and Drug Directorate.

The Nutrition Division has grown extensively in recent years, and performs a number of functions:

- Surveys on nutritional health of specific groups.
- Operation of a specialized nutritional assay laboratory service for physicians and provincial departments of health.
- Production of recipes for quantity cooking (e.g. for hospitals) in an experimental kitchen.
- Provision of educational material and consultant services to the provinces and territories.

These services have limited value to those who are expected to benefit from them. Little new information seems to have emanated from the food surveys in recent years. Provincial departments have developed their own nutritionists who are capable of performing surveys suited to the special needs of their own population groups. The nutritional laboratory enjoys scant usage by the medical profession; only about seven specimens are received monthly from practising physicians. The main source of material to the laboratory is provided by the departmental food surveys. The recipes developed for hospitals appear to be little used. There are other sources for such recipes and, in the provinces in which inquiries were made, no group was found that utilized these recipes.

The educational material produced by the Division is of value and should be continued. Consideration should be given to producing more nutritional material for native populations.

Consideration should be given to withdrawing the consultant services to provinces. Consultant and advisory services could be utilized to some degree in the Territories. Generally, there seems little need for the present strength, and consideration should be given to eliminating this Division and placing the remaining functions in another division, perhaps the Maternal and Child Health Division.

We therefore recommend that:

1 The programme of the Nutrition Division be carefully re-examined with a view to discontinuing unnecessary services and reducing staff.

2 The continuing responsibilities of the Division be assigned to the Maternal and Child Health Division.

The Hospital Design Division reviews plans for new hospital construction and since 1948, when federal grants became available, has scrutinized the planning for 83,000 patient beds. The staff is small and little effort has been applied to the development of special skills in the design of efficient hospital lay-out. There is undoubted advantage in developing an expert group in Canada to promote better hospital design, particularly as those responsible for building new hospitals frequently lack the specialized experience needed to achieve a functionally efficient structure of so complex a nature. How such a service can be best provided is a matter for mutual agreement between the governments concerned, but your Commissioners believe that unless the present Division can be converted into a useful agent for such purposes, which would require its substantial enlargement, it should be discontinued.

We therefore recommend that: The Hospital Design Division be either expanded to provide effective leadership in all phases of hospital design, or discontinued.

Your Commissioners were generally impressed by the manner in which the several divisions in the Health Services Directorate perform their functions, but certain inherent dangers merit discussion.

However knowledgeable a division head may be in his own field of medicine, there is a danger that, on ceasing active practice, he will find it difficult to keep abreast of new developments. The use of part-time consultants might offset any such deficiency, but it is difficult to attract outstanding individuals to this type of work.

In the few divisions in which they have been developed, advisory committees from outside the public service have been most effective in this regard. Relatively small advisory committees, chosen from leading professionals in the field, should be established for every division, meeting periodically with the division heads to promote new concepts and developments.

Further, because of the relative ease of securing continuing funds for programmes previously approved, there is always a possibility that programmes will continue after outliving their usefulness. The advisory committees should have the task of appraising and evaluating the work of their respective divisions.

We therefore recommend that: Each division in the Health Services Directorate have a small committee of outstanding non-departmental advisers, meeting regularly to:

a. Maintain and expand the knowledge of the division.

b. Evaluate current programmes, with particular reference to the continuing need therefor.

Finally, two further organizational changes are suggested for the Health Services Directorate. An Associate Director should be appointed, primarily to share the Director's extended span of control and to assist in appraising the programmes of the consultant divisions. An Assistant Director, National Health Grants and Hospital Insurance, is required in view of the importance of these activities. His duties should be the promotion of programmes and policies advocated by the Directorate, and co-ordination of certain aspects of existing programmes on behalf of the Director.

HOSPITAL PROGRAMMES

The past few years have witnessed the development of an important collaboration between federal and provincial governments, not only in respect to public health generally, but through jointly financed programmes for hospital construction and the operation of broad schemes making hospital treatment generally available to the public.

Involved in these matters is the Dominion Council of Health, the main function of which is to provide, at deputy minister level, liaison between the federal Health Branch and the provincial health departments. The Council comprises the Deputy Minister of National Health, as Chairman, the chief executive officers of the provincial health departments, a scientific adviser, and representatives of labour, agriculture, and urban and rural women's groups. The Council is an effective instrument for the exchange of views on federal health activities, particularly those of the Health Services Directorate which most directly affect the provinces, and in achieving co-ordination of provincial health programmes. It is to be noted that the Council, by reason of its constitution, is primarily concerned with ways and means, while matters of broad policy remain to be dealt with by representatives of the federal and provincial governments of cabinet rank.

The federal-provincial partnership in financing both construction of hospitals and their continuing operation is based on a sharing of cost which varies from province to province. The federal government's share in 1961 amounted to $287 million. The initiative in determining the kind of construction and the classes of operating services to be supported with public money rests largely with the provinces. If, therefore, a province chooses to support a certain service, the federal government will follow, but if a province refuses

to pay a share of a particular class of operation, the service in question is not available as part of the hospitalization scheme in that province.

One result is a variation between provinces in the payment for diagnostic costs on an out-patient basis. Provinces that refuse to cover such costs in their schemes do so on grounds of economy but they may, as a result, incur equal or greater costs, both capital and operating in nature, through the pressure for hospital beds caused by patients who unnecessarily enter hospital to obtain free diagnosis. It may, in this context, be significant that your Commissioners are credibly informed that Canadians are currently using hospital beds to a degree fifty per cent greater than in the United States and at about four times the rate prevailing in the United Kingdom.

The second matter of material financial consequence to the federal government, which falls within the discretion of the provinces under the agreements, relates to the type of new hospital accommodation being constructed. In the absence of any uniform planning approach, your Commissioners regard the present arrangements as being wasteful of public money. They encourage the continuing practice of building acute-treatment hospital beds to mediocre standards, rather than the selective building of beds to meet specific purposes —chronic and domiciliary care, general treatment, teaching and research.

Constitutionally, hospitals are a provincial responsibility, but it is difficult to believe that as a contributor of half the moneys expended the federal government is not entitled, simply on the grounds of getting its money's worth, to insist on more effective planning to avoid the waste arising from the present situation.

Proper planning in this field involves not only the avoidance of duplication of expensive facilities but the provision of hospital and patient-care facilities at various levels of cost and completeness of service, so that the people of Canada have access to the appropriate facility for each type of case. In Canada, at present, there is heavy spending for the building of acute-treatment hospitals, more on the basis of local pride and initiative than on the planned development of particular areas as a whole. Thus, open-heart surgery, a most costly activity, is being projected for virtually every large acute-treatment general hospital. There is no real need for such duplication of facilities, nor are there sufficient trained physicians to operate them.

The jurisdictional difficulties involved in resolving these problems and the federal role therein must be a matter of public policy, which is beyond terms of reference of your Commissioners. Comment is therefore restricted to the observation that the degree of waste is substantial, and to achieve a solution there is a clear need for the development of vigorous leadership, as well as co-operation.

4

PREVENTIVE PROGRAMMES

The preventive programmes are all undertaken in the Department of National Health and Welfare. Civil aviation medicine and quarantine and immigration medical services are responsibilities of the Medical Services Directorate. All aspects of the food and drug programmes are administered by the Food and Drug Directorate, and the planning for health services in time of national emergency is performed by the Emergency Health Services Division of the Health Services Directorate. The organization for the administration of these programmes seems basically sound. All told, some 770 persons are employed and the annual expenditure is about $12.3 million.

CIVIL AVIATION MEDICINE

The Civil Aviation Medicine Division was established by Order in Council in 1946 to "provide medical advice and assistance in setting out physical standards for civil aviation personnel" and "to advise on all matters connected with the health of travellers by air". The Division recommends physical standards to the Department of Transport for pilots and air traffic controllers, and also participates in the administration of these standards.

Civil air personnel, who are subject to licensing by the Department of Transport, must be periodically examined at their expense by private physicians who are appointed for the purpose by the Department of Transport. These reports are then reviewed by one of six regional medical officers employed by the Civil Aviation Medicine Division, who in turn advises regional

licensing authorities of the Department of Transport on the medical condition of the applicants. Any difficult case is referred to the Chief of the Division for his assessment before the Department of Transport is advised. All medical reports are finally filed in Ottawa where they are available to both the Civil Aviation Medicine Division and to the Department of Transport. It would be logical to assign complete responsibility to the Minister of National Health and Welfare for the medical examinations of civil air personnel, including the appointment of the private examining physicians.

Significant problems have arisen in the operations of this Division. For nearly two years there has been serious conflict over the visual standards set by the Civil Aviation Medicine Division and its consultants. Although originally accepted by the Department of Transport, some older pilots were unable to meet these standards, and they have not been enforced.

QUARANTINE AND IMMIGRATION

Quarantine, Immigration Medical and Sick Mariners Services (already reviewed) are administered in one division of the Medical Services Directorate. The Division employs about 336 persons in Ottawa, fifteen field offices in Canada, and several cities in Great Britain and Europe. The services of private physicians are extensively used on a fee-for-service basis both in Canada and overseas.

Quarantine

The Division administers the entire *Quarantine Act,* the purpose of which is to reduce the hazard of major communicable diseases entering Canada, by immunization procedures, by disposing of potential disease carriers and, when preventive measures fail, by detecting, isolating and treating diseased persons and contacts. This function is fulfilled by permanent and part-time personnel located at Canadian ports of entry.

At major airports a nurse or technician is on duty twenty-four hours a day, and a physician for arrival of foreign flights, for visual examination of passengers and the verification of immunization documents. At ports, large passenger liners are met by physicians, and other ships are dealt with by technicians. Ships are regularly inspected for rats by technical personnel, and fumigation is supervised by a physician. In unorganized and small ports, the quarantine work is done by customs officials.

The Quarantine Service, although very necessary in the past, could now be modified and reduced. Visual examination of passengers alighting from aircrafts or ships does not today result in the discovery of significant disease.

Although the Quarantine Service is responsible for preventing the entry into Canada of individuals suffering from any of the usual communicable diseases, the major fear is smallpox. The main defence against this disease lies in ensuring that vaccination has been performed.

In these circumstances, the attendance of present staffs at airports on twenty-four hour duty is no longer necessary. Customs or immigration officials could be given the task of examining immunization documents. For aircraft and ship arrivals from foreign countries, the attendance of a technician or nurse is sufficient.

Apart from the actual examination of sick passengers, technicians have performed all of the duties of the Quarantine Service. It seems logical to extend the use of their services.

We therefore recommend that:

1 Visual examinations of passengers arriving by aircraft and ship be discontinued.

2 Customs or Immigration officials be given the responsibility for examining immunization documents.

3 Technicians be employed in larger numbers to replace physicians and nurses in quarantine work not requiring professional skills.

4 A nurse or technician meet incoming aircraft and ships from foreign lands; and a physician be only on call for emergency situations.

Immigration

All persons seeking to enter Canada, other than temporary visitors and returning Canadian residents, are subject to medical examination. A general medical examination, including chest x-ray, is made on all immigrants. Non-immigrants (tourists, businessmen, etc.), are inspected and may be medically examined when necessary. Non-immigrant students are given a complete medical examination. Casual visitors from the United States are treated in the same manner as Canadian residents.

Medical screening overseas is carried out in three distinct ways. The majority of persons from Great Britain, Western Europe and Hong Kong are examined by physicians of the Department, who are stationed in the large cities. Where a lapse of several months occurs between examination of

the immigrant and his departure for Canada, he may again be examined or treated by departmental personnel at Canadian ports.

Physicians of the Department of National Health and Welfare are augmented by 'roster' doctors who do a small number of examinations in Great Britain and other European countries. These are local physicians who have been designated to make medical examinations of applicants for entry into Canada. Their reports and x-rays are checked by the Canadian Medical Officer supervising that area, who arranges for additional diagnostic work as indicated, advises the Department of Citizenship and Immigration regarding prohibited persons, and gives his opinion on a migrant's capacity to work at his occupation or on his suitability as an immigrant.

Neither Canadian physicians nor roster doctors are located either in communist countries or in countries from which there are few immigrants. Inhabitants of such countries seeking to enter Canada are examined at their own expense by physicians whose medical reports and x-rays are examined by a Preliminary Screening Section in Ottawa. If a visa is granted, the immigrant is subjected to a thorough physical examination and x-ray on arrival at a Canadian port. Examinations by Canadian physicians are free; others are not.

Treatment is provided for those who are ill on arrival and for all persons subject to Immigration jurisdiction after arrival. It is also provided for persons receiving subsistence from the Immigration Branch of the Department of Citizenship and Immigration and for immigrants who become ill in transit, if they lack resources.

There is evidence that the number of Canadian government physicians abroad is excessive. The number of examinations carried out in 1960-61 was 94,020. It is estimated that one doctor can examine 6,000 prospective immigrants in a year. In 1960-61, there were 46 doctors abroad, giving an average of 2,043 examinations per doctor (*see* Table 7).

Table 7—TOTAL EXAMINATIONS AND RE-EXAMINATIONS BY CANADIAN MEDICAL OFFICERS[1]—(EXCLUDING ALL ROSTER WORK)

Fiscal Year	*Examinations and re-examinations*	*Cost*	*Cost per Examination*
1958/59	104,543	$1,099,979	$10.52
1959/60	107,046	1,040,991	9.72
1960/61	94,020	1,165,600	12.39

[1]Department of National Health and Welfare figures.

Table 7—TOTAL EXAMINATIONS AND RE-EXAMINATIONS BY CANADIAN MEDICAL OFFICERS[1]—(EXCLUDING ALL ROSTER WORK)—(Continued)

Place	No. of Doctors	Total No. of Examinations	Performance Average No. of Exams per Doctor	Total Cost	Unit Cost: Cost per Examination	Capital Items
				$		$
BELFAST						
1958-59	1	1,521	1,521	27,440.00	18.04	—
1959-60	1	1,653	1,653	19,570.00	12.00	136.00
1960-61	1	1,210	1,210	31,476.00	26.00	5,370.00 (new office and X-ray)
BRISTOL						
1958-59	1	1,338	1,338	37,295.00	27.87	12,868.00 (X-ray plant installed)
1959-60	1	1,351	1,351	17,453.00	13.00	120.15
1960-61	1	1,074	1,074	13,770.00	13.0	—
GLASGOW						
1958-59	4/3	5,273	1,465	77,263.00	14.66	—
1959-60	3	6,826	2,275	69,269.00	10.00	798.00
1960-61	3	4,678	1,559	72,454.00	15.00	8,698.00 (new X-ray)
LEEDS						
1958-59	3/2	2,499	1,250	43,799.00	17.53	—
1959-60	2	3,043	1,523	34,313.00	11.00	25.00
1960-61	2	2,170	1,085	35,347.00	16.00	46.00
LIVERPOOL						
1958-59	3	3,667	1,223	53,699.00	14.65	76.00
1959-60	3	3,429	1,143	48,452.00	14.00	175.00
1960-61	3/2	2,414	—	44,505.00	18.00	50.00
LONDON						
1958-59	15*	12,504	1,250	322,249.00*	25.75	932.00
1959-60	15*	12,306	1,231	312,186.00*	25.40	2,935.00
1960-61	15*	10,095	1,010	391,624.00*	38.80	2,204.00
	*includes 5 administration or specialist consultants					
DUBLIN						
1958-59	—	965	—	5,617.00	5.82	Roster doctor, costs now doubled
1959-60	—	992	—	7,973.00	8.00	
1960-61	—	663	—	5,536.00	9.00	
THE HAGUE						
1958-59	4	7,313	1,828	60,373.00	8.00	523.00
1959-60	4	8,507	2,129	57,034.00	7.00	25.00
1960-61	4 (now 3)	4,289	1,072	61,134.00	14.00	—

Table 7—TOTAL EXAMINATIONS AND RE-EXAMINATIONS BY CANADIAN MEDICAL OFFICERS[1]—(EXCLUDING ALL ROSTER WORK)—(Concluded)

Place	No. of Doctors	Total No. of Examinations	Performance Average No. of Exams per Doctor	Total Cost	Unit Cost: Cost per Examination	Capital Items
				$		$
COLOGNE						
1958-59	6/5	8,613	1,723	79,269.00	9.00	—
1959-60	4	8,163	2,040	80,895.00	10.00	—
1960-61	4	6,207	1,551	90,815.00	15.00	—
BERLIN						
1958-59	1	2,346	2,346	13,236.00	6.00	—
1959-60	1	2,074	2,074	14,516.00	7.00	8,170.00
1960-61	1	1,592	1,592	15,447.00	10.00	555.94
HAMBURG						
1958-59	1	3,686	3,686	25,002.00	7.00	—
1959-60	1	3,244	3,244	18,856.00	6.00	—
1960-61	1	2,936	2,936	11,387.00	4.00	—
MUNICH						
1958-59	1	1,974	1,974	15,213.00	8.00	—
1959-60	1	2,572	2,572	15,837.00	6.00	—
1960-61	1	1,763	1,763	15,514.00	9.00	—
STUTTGART						
1958-59	1	3,795	3,795	14,984.00	4.00	—
1959-60	1	3,524	3,524	15,838.00	4.00	—
1960-61	1	3,238	3,238	17,826.00	5.50	—
ROME						
1958-59	6	39,799	6,633	112,546.88	2.80	—
1959-60	6	29,460	4,910	122,400.37	4.15	—
1960-61	6	24,837	4,156	147,199.00	5.92	2,302.36 (Air Conditioning)
ATHENS						
1958-59	1	6,373	6,373	17,692.00	2.78	
1959-60	1	6,207	6,207	27,245.00	4.39	720.00 (New Office)
1960-61	1	6,362	6,362	23,577.00	3.71	653.00
PARIS						
1958-59	3	4,102	1,367	59,335.00	14.00	—
1959-60	3	5,413	1,804	71,204.00	13.00	10,086.00
1960-61	3	5,685	1,895	73,786.00	13.00	862.00

[1]Department of National Health and Welfare figures.

Five of the doctors employed in London do not conduct examinations, and a few doctors elsewhere do not examine full-time. Nonetheless, it is clear the average workload for 1960-61 was less than one-half of the normal. The variation by location was extreme. The physician in Athens examined 6,362 persons, while his counterpart in London examined 1,010. The workload in London has not varied significantly for the last three years, yet no reduction has been made in the number of physicians. There are ten examining physicians operating at one-sixth of the normal workload, but no move has been made to reduce costs. The average cost per examination in 1960-61 was $12.39, varying from $3.71 in Athens to $38.80 in London. It is clear that, in those centres where more than one Canadian physician is now employed, staff reductions should be made immediately.

Even at full-employment, this type of work is routine, monotonous and confined within narrow limits, and deterioration of skill inevitably results. The employment of competent physicians full-time in this work is wasteful, particularly in view of readily available alternatives.

Fast-changing world health conditions allow a reappraisal of the methods of the Immigration Medical Service. General standards of health have improved in all parts of the world. The incidence of tuberculosis, once the greatest danger in an immigrant population, has been reduced to such a degree that the Canadian government, in some instances, has deliberately admitted cases of tuberculosis to Canada for treatment. Certain provincial governments have accepted a similar responsibility for tuberculosis cases.

A second factor of importance is the speed with which documents can today be transported and screened. One of the major reasons for introducing Canadian physicians into Europe was the delay consequent on the pre-screening technique. Documents can now be brought from any city in Europe to Ottawa almost as quickly as they can be taken to the European headquarters in London, where many reports of examinations now go for approval. The security investigations of the Department of Immigration are alleged to require an average of two weeks to complete. This period would provide ample time for evaluation in Ottawa of the results of local physical examinations in Europe.

Thus there are sound grounds for recommending that examinations abroad by Canadian physicians be discontinued altogether, and that roster doctors be employed in all countries. The present policy of providing free examinations for prospective immigrants of certain countries is of questionable value. Your Commissioners did not find evidence to support the apparent belief that the cost of the physical examination in any way affected the decision to emigrate.

Serious study should be given to developing a more objective type of examination. Modern needs would appear to include a continuation of x-rays for tuberculosis, to be read by physicians in Ottawa; urinalysis to be performed in a laboratory other than that of the examining physician; blood tests for syphilis, and the like. The present psychiatric staff should be used, with an advisory group, to produce an objective questionnaire to be filled out by the potential immigrant and evaluated in Ottawa. The findings of such a questionnaire should be followed carefully and constantly evaluated.

It is argued that the location of Canadian physicians in the field tends to minimize the danger of examination results being falsified by local physicians. However, the parts of the world in which this phenomenon is allegedly most likely to occur are not all at present staffed by Canadian physicians. Proper precautions will reduce the danger of bribery, and the selection of dependable physicians can best be accomplished with the advice of the local licensing body for physicians or the faculty of the local medical school.

In some centres there may be merit in following the example of Australia —in addition to employing full-time Australian doctors in London, Australian doctors following post-graduate training in England are employed on a part-time basis. This plan is considerably less expensive, has all the advantages of employing a national, and provides worthwhile assistance to young doctors.

We therefore recommend that:

1 More objective tests of prospective immigrants be developed, to include enquiries of a psychiatric nature.

2 The 'roster doctor' plan for carrying out examinations be universally applied, and the staff of Canadian physicians overseas be recalled.

3 Pending the implementation of the foregoing recommendation, the number of physicians now abroad be sharply reduced, and proper management controls be introduced in the Immigration Medical Service.

FOOD AND DRUGS

The Food and Drug Directorate administers the *Food and Drugs Act*, the *Proprietary or Patent Medicine Act*, and the *Opium and Narcotic Drug Act*.

The intent of these statutes is to ensure the purity of foods and the safety and effectiveness of drugs; to guide the public against health hazards in foods and drugs; to prevent fraudulent and deceptive labelling and advertising; and to regulate the importation, manufacture and distribution of narcotics.

The Directorate was established in 1875 and its scope has steadily increased. In recent years the volume of products appearing on the market and subject to scrutiny under the *Food and Drugs Act* has severely strained available resources. In 1960, some 25,000 radio commercials were checked; 2,000 of the 25,000 pharmaceutical products for sale in Canada were examined; some 200 new pharmaceuticals were investigated; and foods brought into Canada were inspected.

The Directorate, with headquarters in Ottawa, operates central laboratories in that city and in five regional offices across Canada which co-ordinate and direct the inspection of foods and drugs, with the exception of narcotics. The auditing of narcotic supplies in the drug trade is performed separately by eight inspectors, located at various points across the country, who are under the direct authority of the Chief, Narcotic Control Division, a unit only recently incorporated in the Directorate.

There is considerable honest doubt on the part of the inspection staff of this Directorate whether current responsibilities are being adequately met. The limited staff available results at times in a degree of superficiality of screening which can be dangerous, and staff requirements should therefore be carefully reviewed. Reference is made in the discussion of the Laboratory of Hygiene to the desirability of transferring to the Food and Drug Directorate the responsibility for analysis of biological drugs and inspection of manufacturing facilities.

We therefore recommend that: The analysis of biological drugs and the inspection of manufacturing facilities be henceforth administered by the Food and Drug Directorate.

5

CONSOLIDATION OF FEDERAL HEALTH SERVICES

The most efficient conduct of federal medical services cannot be achieved with fragmentation and separation of skilled manpower and facilities. Workloads vary unduly for personnel and equipment. In addition to the lack of correlation of activities of general medical officers, there is limited opportunity to make optimum use of special skills. Co-operation between the members of the various departments at the local or provincial levels is rendered needlessly difficult. In the federal government service, the various health divisions and directorates are more or less self-contained. Even though career opportunities may be singularly inadequate in certain parts of the Health Branch of the Department of National Health and Welfare, there is little opportunity for transfer. This extreme limitation of career opportunities accentuates problems of recruitment and strongly influences the quality of medical service.

The effect of the recommendations to transfer the operation of the majority of the federal hospitals to other jurisdictions will be to reduce the health services staff of the federal government by very significant proportions. When the transfer of hospitals has been completed, necessarily a long-term project, as many as 9,000 positions on the establishment of the Veterans Treatment Services Branch of the Department of Veterans Affairs and 1,500 in Indian and Northern Health Services of the Department of National Health and Welfare may be affected. The remaining federal employees engaged in health activities, excluding the Canadian Forces Medical Services, would number less than 5,000 (based on present strength). This number would exceed the

current strength of the Health Branch of the Department of National Health and Welfare by less than twenty-five per cent.

The logical step following the devolution of the medical care services and the consequent reduction in federal health personnel would be consolidation of the remaining services in one department.

REORGANIZATION OF HEALTH AND RELATED SERVICES

The top structure of the present Health Branch of the Department of National Health and Welfare is basically fitted to assume the reorganized functions. The continuation of three directorates is recommended, respectively consolidating:

- All activities and services designed to support and to co-ordinate the health services operating under provincial jurisdiction.
- All public health, diagnostic and treatment services provided by, or at the expense of, the federal government to persons whose health is primarily a federal responsibility or concern.
- All federal activities designed primarily to safeguard the public health through the control of the advertising, packaging and quality of foods and drugs, and of the distribution of narcotic drugs.

The proposed organization structure of a reconstituted Department of National Health and Welfare is illustrated in some detail in charts 3, 4, 5 and 6. Although future treatment service for veterans will, in the main, be furnished by part-time physicians on a fee basis, the remaining full-time staff should be part of this unified health service, as should the present health staff of the Penitentiaries Service. The medical evaluation required by the Canadian Pension Commission should be provided for in the reorganized Health Branch.

The changes outlined in the proposed structure are described elsewhere in this report, except for those pertaining to the proposed Medical and Treatment Services Directorate.

This Directorate will be executing several programmes for specified groups of veterans, Indians, and others. As far as possible, an integrated field staff will administer these programmes. It is desirable that specialists, concerned primarily with planning and control, should be provided to ensure that each programme is properly designed and executed by the Directorate. An Assistant Director, Programme Planning, should co-ordinate the activities of the programme specialists.

Chart 3—NATIONAL HEALTH AND WELFARE—RECOMMENDED ORGANIZATION OF THE HEALTH BRANCH

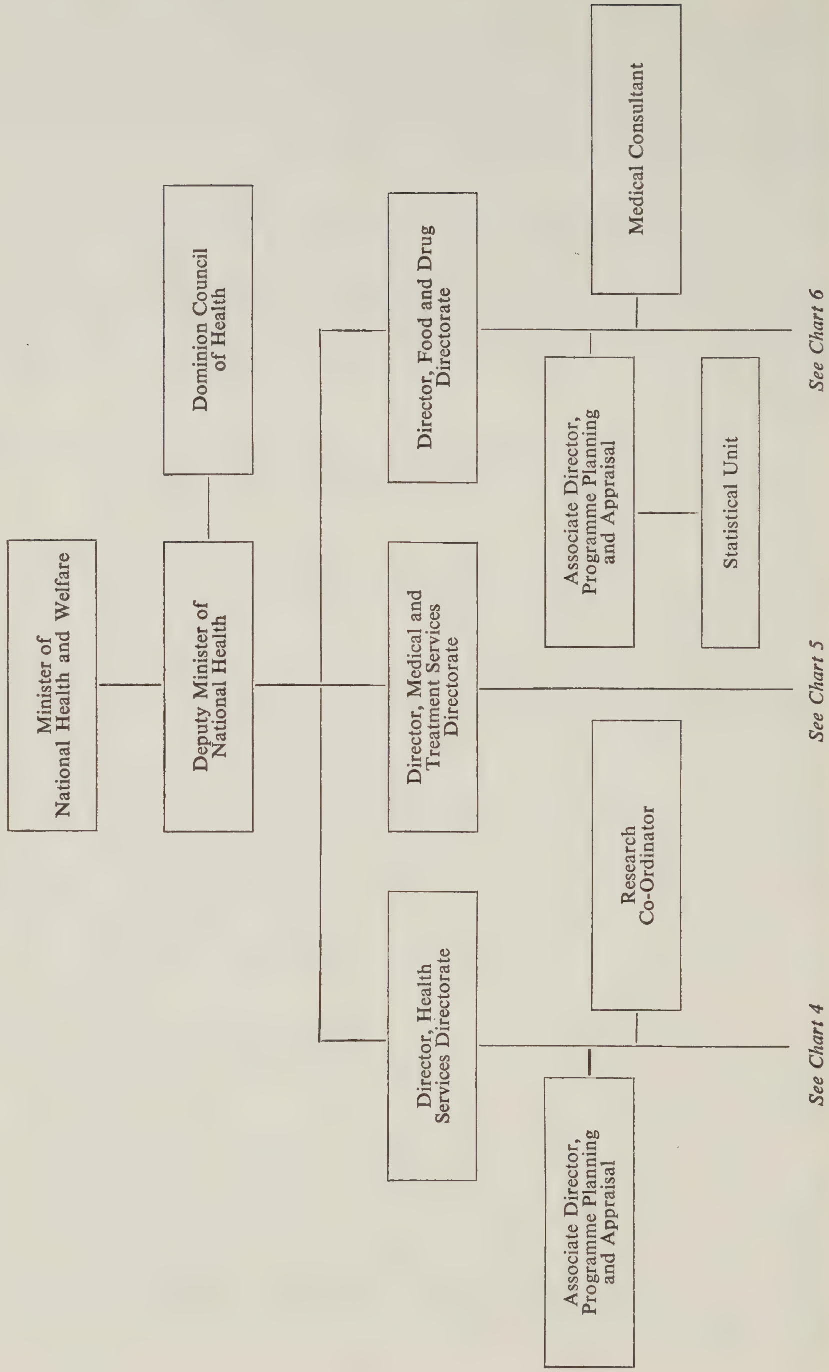


Chart 4—HEALTH SERVICES DIRECTORATE

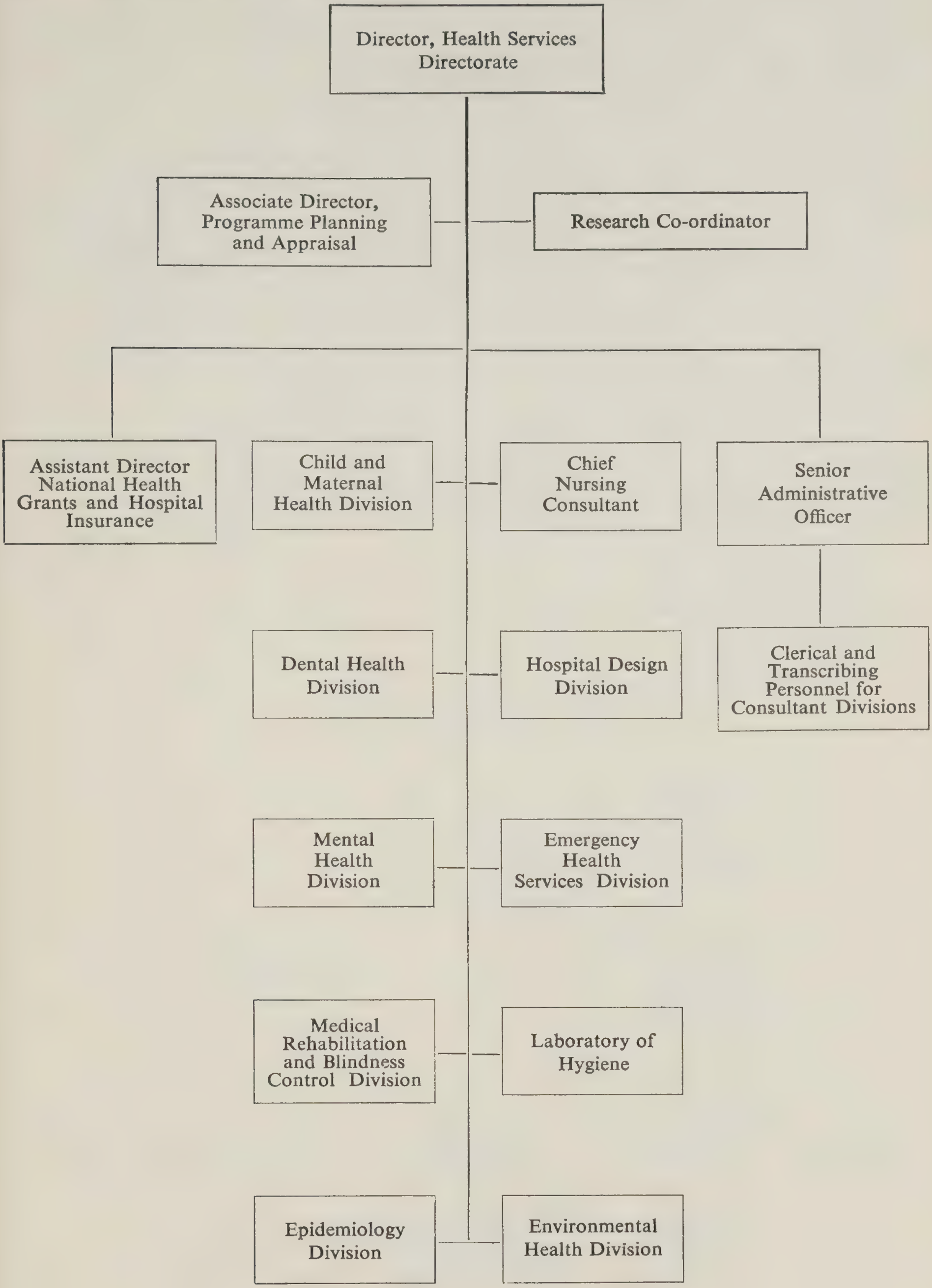


Chart 5—MEDICAL AND TREATMENT SERVICES DIRECTORATE

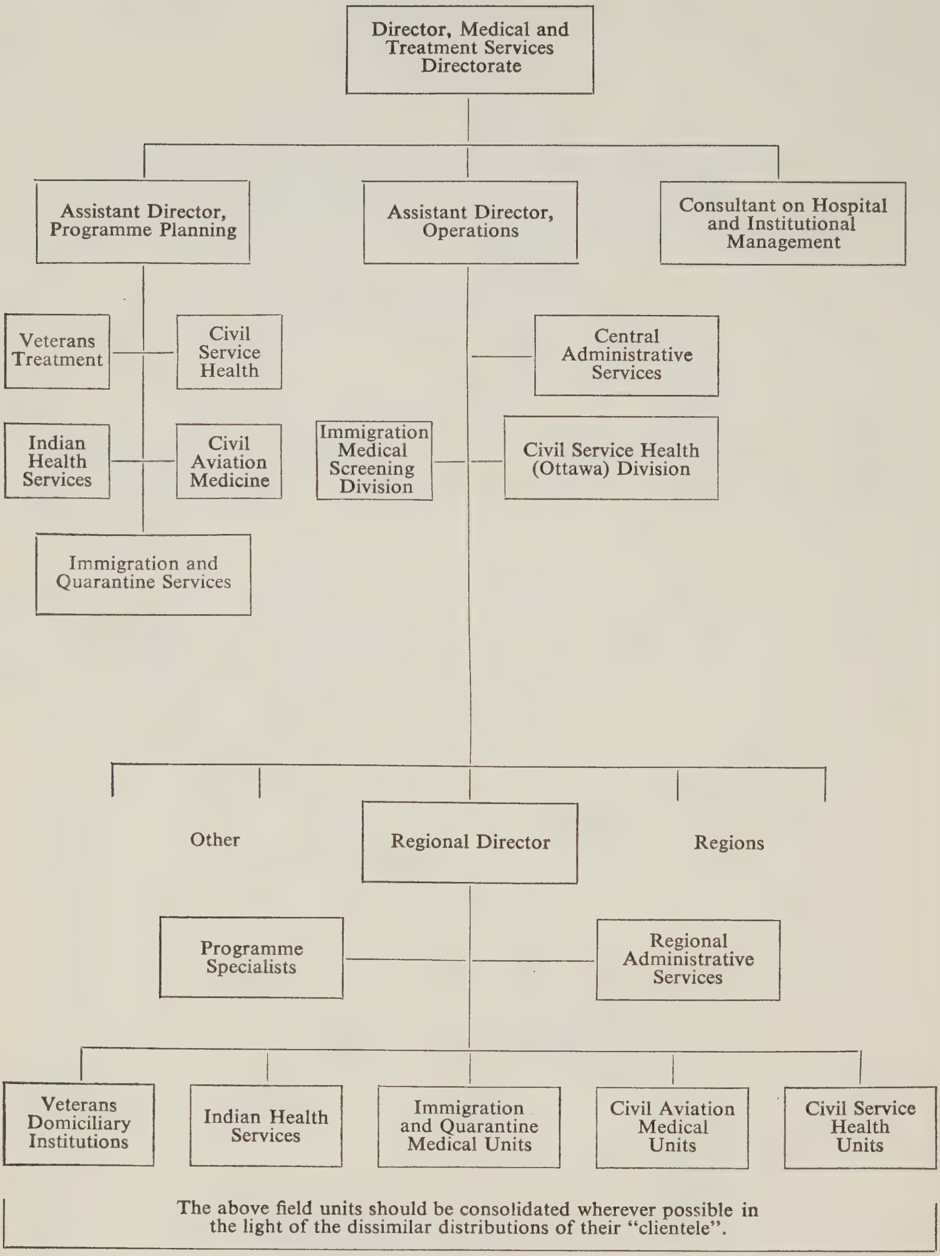
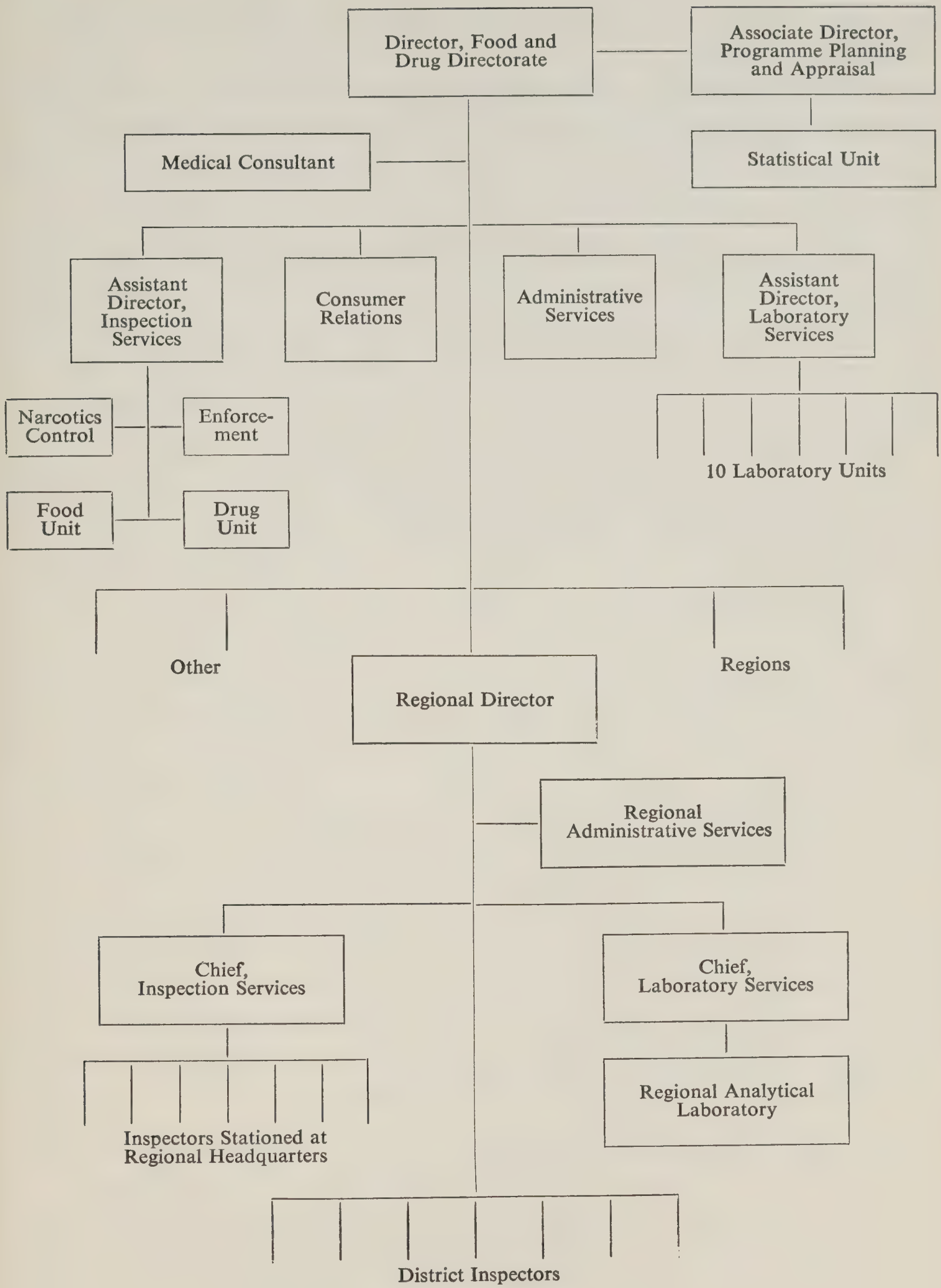


Chart 6—FOOD AND DRUG DIRECTORATE



One officer with extensive training and experience in hospital management should be appointed in a staff capacity to the Director, to ensure that the special problems of hospital management receive adequate attention within the Directorate.

An Assistant Director, Operations, is proposed to prevent the imposition of an over-extended span of control on the Director, to co-ordinate the relationships between regions, and to represent the operating units in the formulation of policies at the Directorate level.

Certain exceptions should be noted. In the north, the need for close co-ordination between public health and other public services (particularly education) leads to the conclusion that all government health services in each of the Territories should be under the control of the respective Commissioners. It is proposed, however, that the health personnel be rotated between the territorial civil services and the National Health Branch in order that a continuous supply of qualified persons can be made available to the Territories.

The incorporation of the Canadian Forces Medical Service within a unified health service was considered by your Commissioners. The assignment of civilian personnel from a central health service to serve with the Armed Forces, the special exigencies of war, and the control and discipline of servicemen receiving treatment in civilian facilities pose unique problems. The proposed consolidation of existing services in Veterans Affairs, National Health and Welfare, the Canadian Pension Commission, and the Penitentiaries Service should be completed before any decision is taken to incorporate any military personnel or facilities. This proposal does not preclude the seconding of civilian personnel from the Health Branch to the Canadian Forces Medical Service; conversely, health personnel retiring from the Armed Forces at an early age should be positively encouraged to join the civilian organization.

Once the federal health services have been successfully integrated, there would be advantages in developing a high degree of co-operation with provincial and municipal health services. Agreements for the interchange of staff would provide more opportunity for medical personnel and should thereby result in improved standards of care and a more attractive career for physicians. Recruiting difficulties for undesirable locations would be lessened, and greater staff mobility could be accomplished.

We therefore recommend that: All health services of the federal government other than the Canadian Forces Medical Service be consolidated in a reconstituted Health Branch of the Department of National Health and Welfare.

STAFFING

Although the formation of a single federal health service will in itself provide better career opportunities, concrete steps will have to be taken to encourage the best medical graduates to enter and remain in the public service. Acceptance and implementation of the recommendations contained in the report on *Personnel Management* will help to overcome the present cumbersome recruiting procedures and the barriers to transfer, but other factors remain which, unless approached positively, will continue to impede the enlistment of the best physicians. The opportunities for graduate training are limited. The heads of some of the specialist divisions have not had sufficient training to be certificated in their specialty. Salary ranges, unrealistic up to two years ago, have been significantly increased, but the problem has not been entirely removed.

The decline in the number of really good entrants to medical schools presents a serious problem to Canada as a whole. However, this a subject more properly within the reference to the Royal Commission on Health Services; therefore it is not now reviewed in detail, although of significance in staffing the public service.

6

MEDICAL RESEARCH

Medical research is considered here, apart from the report on *Scientific Research and Development,* because of its relationship to some of the activities in the field of medicine and public health dealt with in this report.

A comprehensive study of government-supported medical research in Canada was made several years ago by a committee of eminent doctors, under the chairmanship of Dr. R. F. Farquharson of the University of Toronto. The report of this Committee, submitted to the Government in November 1959, recommended the establishment of a Medical Research Council and an increase in the expenditures of public funds in support of medical research. These recommendations have been acted upon in part, and the Medical Research Council has been separately established under the aegis of the National Research Council for the time being.

Table 8—EXPENDITURES FOR MEDICAL RESEARCH IN 1961-62

	($000)
Department of National Health and Welfare	5,700
Defence Research Board	1,600
Medical Research Council	3,300
Department of Veterans Affairs	369
Queen Elizabeth Fund for Research into Diseases of Children	55
	11,024

In the year 1961-62, expenditures totalling $11 million were made by the government to support medical research. Five federal agencies were involved

and, of the total expenditures, approximately $7 million was disbursed in grants to universities and hospitals. The balance represents the cost of research conducted within the laboratories of three of the federal agencies concerned. Expenditures of the several agencies in 1961-62 are shown in Table 8.

DEPARTMENT OF NATIONAL HEALTH AND WELFARE—$5,700,000

Of the total medical research budget of the Department, $3.5 million is disbursed through the National Health Research grants. This programme is primarily devoted to public health and clinical medicine. Outside scientists advise the Department with respect to all such grants, and the screening operation appears to work effectively. The balance of the budget, $2 million, is spent to support the Department's own intramural programme which has expanded by nearly twenty-five per cent in the past two years. Here, individual projects are passed upon by groups of departmental officials without any independent advice from outside the public service. Your Commissioners, on the basis of their observation of other intramural research activities within the government, and in the absence of independent scrutiny of programmes, feel that a progressive increase may be expected in the proportion of the total funds available which is devoted to intramural research.

DEFENCE RESEARCH BOARD—$1,600,000

The same conflict is apparent between the support of outside projects and the growth tendencies of the Board's own laboratories. Grants made to universities are carefully screened by panels of experts drawn from all parts of Canada but no similar screening is applied to the intramural programme. Here again, the sums provided for the Board's own programmes have grown while the amounts available for outside research grants have diminished with the years.

THE MEDICAL RESEARCH COUNCIL—$3,300,000

Expenditures of the Council are devoted entirely to the support of research in universities and hospitals. The amount available in 1961-62 represents an increase of $1 million over the disbursements of the preceding year.

DEPARTMENT OF VETERANS AFFAIRS—$369,000

This small programme finances research in clinical medicine. While formerly an extramural programme was supported, the "in house" activities have grown

to a point where no funds were available for grants to outside bodies in the year 1960-61.

QUEEN ELIZABETH FUND FOR RESEARCH INTO DISEASES OF CHILDREN—$55,000

The activities of this Fund are confined to grants to young research workers in the field of child health to complete their training and qualify them as full-time research workers in universities and hospitals.

DIMENSIONS OF THE CANADIAN EFFORT

In the report on *Scientific Research and Development,* your Commissioners recommend means for the determination of national scientific and research policy. The proportion of total government research expenditures that should be devoted to medical research will be a matter for decision at ministerial level, with the advice of the proposed National Scientific Advisory Council. It is noteworthy that at the present time the support of research in the field of medicine claims but a modest ($4\frac{1}{2}\%$) share of the government's total research expenditures. Monies spent on medical research in the United States are currently running at one hundred times the total of Canadian expenditures. This disproportion has become more accentuated in recent years as a result of a virtual explosion of activity in this field in the United States, which has had a significant effect upon the conduct of Canadian programmes. Facilities and salaries offered to medical scientists in the United States are on a lavish scale when compared with Canadian practice, and inevitably there has been a serious loss of Canadian trained scientists to the United States in recent years. There is no doubt that public funds are being applied in Canada to train scientists for the research programmes of the United States.

It is considered that, unless a substantial increase in support and facilities can be achieved in Canada, the standard of research activity may well suffer and the loss of trained personnel to the United States continue. In this context, the Farquharson report recommended the expenditure of $25 million for the creation of additional research facilities at Canadian universities and the granting of substantial annual increments to the budget for operating costs. A too rapid increase in the amount of money devoted to medical research can result in an imbalance between the integrated functions of research and teaching in the medical schools of the country. This danger was recognized by the Farquharson Committee and should be taken into account in the development of government policy in this area.

While the major portion of monies currently being spent by the government

is now devoted to financing research in the universities and hospitals, the several internal research activities display a tendency towards expansion which your Commissioners feel should be held in check. In general there is broad agreement that medical research should be conducted in the centres of medical education because of its effect on the increase in medical knowledge generally and on the training of medical workers. Properly to contain the activities of government laboratories, it will be necessary to establish a policy that no research be undertaken within government laboratories unless there are compelling reasons why it cannot be conducted at universities; in addition, the practice of submitting all "in house" activities for periodic screening or review by outside experts should be adopted.

7

ASPECTS OF FEDERAL GOVERNMENT HOSPITAL MANAGEMENT

Your Commissioners have recommended that the federal government withdraw progressively from the operation of hospitals, but some hospitals will be operated for many years. Recommendations in other reports of your Commissioners, particularly *Financial Management,* have a general bearing on hospital management, and certain other particular matters need attention.

HOSPITAL MANAGERS

Hospitals are complex organizations. To operate efficiently, they require the harmonious co-ordination of effort among diverse groups of people. Expensive facilities and large staffs must be utilized economically and, simultaneously, high standards of medical care must be maintained. These are the considerations that have led many large public and teaching hospitals to secure professionally qualified hospital managers as their senior executives. Federal hospitals, however, are managed by physicians, few of whom have had adequate preparatory training for the executive functions of their positions. Future appointments of hospital managers should be based on proven administrative ability in the hospital field and should not be restricted to physicians.

HOSPITAL SUPPORTING SERVICES

Certain services are rendered to federal hospitals by other departmental units, including functions such as personnel, purchasing, engineering and

budgetary control. In the Department of Veterans Affairs, the regional administrators are senior line executives in the field, responsible to the Deputy Minister for the management of veterans' welfare services and of central administrative groups within their regions. They also exercise, with certain exceptions, an authority over the personnel, purchasing, transport, accounting, and engineering functions within the hospitals. The Senior Treatment Medical Officer in each region is, nevertheless, held responsible "to the Director-General of Treatment Services" (at headquarters) "for providing complete medical, prosthetic, dental, hospital and domiciliary care to veterans and other persons . . . .".* The hospital administrator is dependent on these outside officers and subject to the rules and regulations of an outside authority. Where authority is so divided, no one can be fully accountable.

For example, the centralization of purchase authority in regions or districts frequently results in contracts being awarded to other than local firms, even when local prices, quality and service are comparable. Consequently, difficulties arise through shortages and non-delivery. Central purchase of certain common goods is obviously justified because of the very significant economies available through bulk purchasing. The items to be purchased centrally should, however, be designated in an up-to-date catalogue, and rapid delivery must be assured. The hospital administrator must have the authority to purchase any item locally in an emergency.

Wherever feasible, all essential administrative services must be co-ordinated within the hospital under the authority and control of the hospital manager, subject only to broad guidelines.

FINANCIAL MANAGEMENT AND CONTROL

Estimates

The inadequacy of the information currently provided to Parliament in the Estimates is stressed in the report on *Financial Management*. Some specific comment is required on hospital estimates and financial control. In no case are the anticipated expenditures for individual hospitals disclosed in the Estimates. In general, the anticipated cost of operating all hospitals in any department is combined in one vote in the Estimates, often grouped with other expenditures, and is categorized only under "standard objects of expenditure", such as salaries, rental of equipment, and postage, which indicate the nature of the expenditure but not its purpose. The hospital department-heads responsible for expenditures often do not participate in the preparation of the

*D.V.A. Departmental Instructions, October, 1961.

Estimates. The principal guide in arriving at the forecasts is the historical record, and this is the primary reference of those who review the Estimates. The individual hospital estimates are consolidated, reviewed and often reduced by headquarters staff. Hospitals are not always advised of the revised amounts within which they are expected to operate.

Hospital programmes presented to the Treasury Board and Parliament for approval should show the total estimated costs of each individual hospital. The estimated costs of certain smaller institutions or centres could probably be combined for Parliament but should be submitted individually to the Treasury Board for review. Individual hospital estimates should originate with hospital management.

Expenditure Control

Generally accepted principles of management control require that individual managers be held accountable for expenditures incurred on their authority. Decisions of department heads in a hospital obviously have a direct effect on the operating costs of their respective departments and of the hospital. However, expenditures are now controlled not by areas of operating responsibility but by the same standard objects of expenditures as are used in compiling the Estimates. At the hospital level, this necessarily places the onus of control on the senior accounting or administrative officer and not on the department heads, on whose decisions expenditures depend. In practice, little control is exercised until the latter months of the year, when accumulated expenditures approach the original amounts estimated. At this point, some departments within the hospital may suffer because of inefficiencies or mismanagement in others.

The Estimates are now prepared and expenditures controlled under the government's standard cash accounting system. An accrual system is required, both to satisfy the needs of management and as a basis for proper financial reporting. The adoption of the standard accounting system developed by the Canadian Hospital Association, which is used today by most Canadian hospitals, would not only lead to improved management but would enable the government to set standards for its own operations by comparison with a wide variety of private institutions.

Improved financial information for management control purposes should be available both in hospitals and at headquarters. Comprehensive monthly statements should be prepared showing comparisons of actual and budgeted costs and the amounts of variances. Some hospitals,—e.g., Royal Canadian Navy Hospital Naden in Esquimalt, B.C.—have no reliable cost information, nor is it available at headquarters. At Sunnybrook Hospital, a cost statement

for the fiscal year 1959-60 was released only in March 1961, long after it could have served any useful purpose.

INVENTORY MANAGEMENT

Inventory management in government hospitals is less than satisfactory. There are no uniform policies for establishing the minimum and maximum quantities that should be on hand; where limits have been set at the local level, control is not always exercised to assure adherence to those limits. Also, the clerical effort put forth is inefficient and uneven; stores of low monetary value receive the same attention as expensive supplies.

Hospital stores should be financed through the use of a revolving fund. This would provide additional flexibility and avoid the year-end rush to spend remaining funds that would otherwise lapse. It would also facilitate the use of accrual accounting for management purposes and permit accurate costing procedures.

16 LENDING, GUARANTEEING AND INSURING ACTIVITIES

SERVICES FOR THE PUBLIC

REPORT 16: LENDING, GUARANTEEING AND INSURING ACTIVITIES

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THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

CONTENTS

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Roland Therien, *Laurentide Acceptance Corporation Ltd.*, Montreal
S. M. Thompson, F.S.A., *The Manufacturers Life Insurance Company*, Toronto
C. Morley Willoughby, *Houston, Willoughby and Company Limited*, Regina, Saskatchewan.

A number of briefs and submissions bearing on this subject were considered and these are duly recorded in the final volume of your Commissioners' reports.

Your Commissioners, in acknowledging the assistance and advice received, dissociate all those named above from any of the findings and conclusions contained in this report; for these, your Commissioners assume full responsibility.

1

INTRODUCTION

Homeowners, farmers, fishermen, business firms, veterans, exporters, immigrants, public servants and the public at large benefit from the lending, guaranteeing and insuring services provided by the Government of Canada. These programmes substantially redirect normal streams of credit. Loans to individuals and businesses now approach $5 billion and present liabilities arising from the sale of annuities to the public and from the pension plans for public servants are calculated to total almost $4 billion.

This report relates to those activities of the government which provide financial services and assistance to individuals and businesses in Canada. Broadly defined these include direct and indirect loans, guarantee, and insurance programmes, the pension arrangements for public employees and annuities sold to the public. Excluded are loans and guarantees to foreign countries, to other levels of government in Canada, and to Crown corporations save where these are engaged in lending, guaranteeing and insuring activities. The activities of the Unemployment Insurance Commission and the Bank of Canada, which are under review by others, are not included here.

No attempt is made by your Commissioners to develop any conclusions with reference to the public policies that these programmes are designed to achieve. The concern is with the effectiveness of the procedures and forms of organization under which the programmes are administered.

2

DESCRIPTION OF PROGRAMMES

The lending, guaranteeing and insuring services provided by the Government of Canada, here examined, are administered by the following departments and agencies:

THE DEPARTMENT OF FINANCE directs four programmes of assistance to individuals through short and intermediate-term loans at preferred rates of interest. Most of these loans are made directly to borrowers by the chartered banks, which are protected against loss by government guarantee. Legislation administered includes the *Farm Improvement Loans Act,* which provides loans to farmers for the improvement and development of farms; the *Fisheries Improvement Loans Act,* which provides credit to fishermen engaged in primary fishing enterprises; the *Veterans' Business and Professional Loans Act,* which assists veterans to establish themselves in business or the professions; and a comparatively recent statute, the *Small Businesses Loans Act,* which offers credit to proprietors of small business enterprises for the improvement and modernization of equipment and premises.

THE DEPARTMENT OF AGRICULTURE, under the terms of the *Prairie Farm Assistance Act,* provides prairie wheat farmers with a form of insurance against crop failures. Those eligible contribute towards the cost through a levy on grain sold to licensed buyers.

THE CANADIAN WHEAT BOARD, under the authority of the *Prairie Grain Advance Payments Act,* makes partial payments to farmers on grain stored on farms and undelivered because of quota restrictions. Funds are borrowed

by the Board from the chartered banks, under government guarantee, for this purpose.

THE DEPARTMENT OF FISHERIES administers the Fishermen's Indemnity Plan. This plan offers fishermen, on payment of a premium, a form of insurance protection against total or partial damage to their vessels or to their lobster traps.

THE DEPARTMENT OF CITIZENSHIP AND IMMIGRATION, under the Assisted Passage Loan Scheme, makes interest-free loans to immigrants to cover the cost of transportation and other expenses.

THE DEPARTMENT OF VETERANS AFFAIRS, under the programmes administered by the Director, the Veteran's Land Act, provides three forms of assistance to veterans. The first aids those who wish to settle on land as full or part-time farmers, or to engage in commercial fishing. Under this programme land is acquired and sold to a veteran under a sale agreement bearing interest at the low rate of three and one-half per cent, a portion of the loan being non-repayable if the veteran meets prescribed conditions. Since 1954, veterans who are full-time farmers have been offered additional long-term credit at an interest rate of five per cent. The third form of assistance is the temporary financing provided to veterans during construction of their own homes, pending receipt of an insured mortgage loan from the Central Mortgage and Housing Corporation upon completion of construction

THE DEPARTMENT OF LABOUR sells annuities to the general public under the terms of the *Government Annuities Act;* a maximum annuity of $1,200 per annum may be sold to one person.

THE CENTRAL MORTGAGE AND HOUSING CORPORATION is the instrument for carrying out federal housing policies. Financial programmes take a variety of forms:

- Mortgage insurance schemes offer to approved lenders (including the Corporation itself) protection against losses on funds advanced for the construction of new homes and on funds advanced for improvements to old homes.
- The Corporation has in the past (but not since 1954) contracted to guarantee eighty-five per cent of the annual rentals from certain multiple housing units, in return for an annual fee. The Corporation is empowered to offer guarantees for land assembly projects and other specified purposes, but these programmes are also largely dormant.

- Direct loans are made by the Corporation for a variety of purposes. Normal housing loans are made on a residual basis only, that is when funds are unavailable from private lenders. However, direct loans are made without this limitation for the following purposes: low-rental projects constructed by limited dividend enterprises and non-profit agencies; housing for employees of mining, logging, lumbering and fishing producers; university dormitories; and sewage collection and treatment facilities constructed by municipalities.
- Finally, the Corporation may buy, sell, and lend on insured mortgages.

THE FARM CREDIT CORPORATION offers long-term mortgages to farmers to enable them to place their farms on a sound economic basis.

THE INDUSTRIAL DEVELOPMENT BANK provides money for businesses that cannot finance development through ordinary channels. Financing is usually by way of mortgage loans, but the Bank has wide discretion as to the nature of the financing it may provide and the security it may accept.

THE EXPORT CREDITS INSURANCE CORPORATION insures receipts from Canadian exports of goods and certain services. Protection is also provided against abnormal risks, including those arising from the long-term financing of large exports of capital goods. The latter programmes are administered by the Corporation, but the government assumes the risk.

Later in this report, programmes providing pensions to public servants are described. Other financial activities of the government were noted but not subjected to detailed review. These include loans to Indians and Eskimos, and to government employees posted abroad; loans or long-term receivables arising out of the sale of government property; life insurance offered to civil servants and war veterans; and several pension plans, including those providing for members of the House of Commons, diplomats and judges. The liabilities outstanding under the programmes not reviewed are often large, but many have either been discontinued, are dormant, or have only a restricted number of participants.

The programmes reviewed are classified in Table 1, which shows the amounts of loans, guarantees and insurance outstanding, and demonstrates that housing and related loans account for the major portion of the total. Only the liabilities for pension benefits guaranteed to public servants and those arising from sales of annuities are of comparable magnitude. The financial assistance provided to farmers, businesses, veterans and others is of substantial proportions, but small in relation to the other programmes.

Loans vary in term. Long-term loans are usually made to finance new

housing construction, university dormitories, and municipal sewerage projects, under the programmes administered by the Central Mortgage and Housing Corporation. Loans by the Farm Credit Corporation and certain of the loans administered by the Director, the Veterans' Land Act, are also long-term. Short and medium-term loans are made directly to business firms by the Industrial Development Bank. The guaranteed loans made by chartered banks to farmers, fishermen, veterans and small business firms, and the insured loans made to homeowners for home improvements, are short or medium-term. The Canadian Wheat Board's advances against undelivered crops are short-term, as are the loans to immigrants by the Department of Citizenship and Immigration.

Table 1 shows that the total of direct loans by government agencies is over \$1.8 billion, and indirect loans almost \$3 billion. The latter comprise the loans made by private institutions on the basis of government guarantees or insurance.

Some of these programmes are limited to the provision of money, but a number provide the beneficiaries with special services designed to promote financial success. For example, the staffs of the Veterans' Land Act Administration and the Farm Credit Corporation not only appraise loan applications from the viewpoint of the security offered and the soundness of the farming plan, but also maintain a continuing scrutiny of the mortgagor's operations. This includes reviewing financial results, inspecting progress and generally supervising operations to ensure that plans are being soundly implemented. The Industrial Development Bank has a large professional staff to counsel and advise prospective and current borrowers. Programmes of the Central Mortgage and Housing Corporation include inspection of housing construction financed both directly and by private lenders. Because of the Corporation's statutory responsibility to improve the quality of housing generally, the inspections are usually more detailed than those normally carried out by private lenders. The Export Credits Insurance Corporation freely provides exporters with advice and counsel. By contrast, the Department of Finance provides few supplementary services; the chartered banks and other authorized lenders are responsible for administering the loans made under government guarantee, while the interest of the Department is limited to scrutinizing performance and paying losses.

Comparative assessment of the efficiency of these services is hindered by the variety of supplementary services. Generally, administrative costs are much greater than they would be if no more than financial accommodation were provided. The borrower is not often permitted to accept the financial assistance without also becoming the beneficiary of the supplementary services.

Table 1—LENDING, GUARANTEEING AND INSURING ACTIVITIES REVIEWED

			Amounts Outstanding at Fiscal Year End December 31, 1960 or March 31, 1961				
			Loans (note 1)			*Commitments Under Guarantees or Insurance*	
Purpose	*Agency*	*Activity*	*Direct*	*Indirect*	*Total*	*Contingent*	*Fixed*
			(thousands of dollars)				
Housing	Central Mortgage and Housing Corporation	—Long term loans for housing, including moderate and low income rental housing	1,296,384	2,751,847		3,090,000	
		—Long term loans for university dormitories and sewerage projects	(note 2)				
		—Rental guarantee to owners of low and moderate rental housing				15,500	
		—Short and medium term loans for improvements to existing housing		56,000		9,410	
			1,296,384	2,807,847	4,104,231	3,114,910	—
Farmer	Farm Credit Corporation	—Long term mortgage credit	162,427				
	Canadian Wheat Board	—Loans to western farmers against undelivered crops	35,836				
	Department of Finance—*Farm Improvement Loans Act*	—Intermediate and short term credit to farmers for improvement and development of farms, and for the improvement of living conditions thereon		177,536		45,426	
	Department of Agriculture	—Assistance for western farmers suffering crop failure				Indeterminate	
			198,263	177,536	375,799	45,426	—

Business	Industrial Development Bank	—Credit to industry, trade, or other business undertakings by supplementing the activities of other lenders	105,900				
	Department of Finance—*Small Businesses Loans Act*	—Loans to proprietors of small business enterprises for the improvement and modernization of equipment and premises		1,865		187	
			105,900	1,865	107,765	187	—
Veterans	Department of Veterans Affairs —*Veterans Land Act*	—Financial assistance through loans for settlement of veterans in full or part-time agricultural pursuits, or as commercial fishermen or for home construction	199,644				
	Department of Finance—*Veterans Business and Professional Loans Act*	—Short and medium term loans to assist veterans in their establishment in business or professionally		209		209	
			199,644	209	199,853	209	—
Fishermen	Department of Finance—*Fisheries Improvement Loans Act*	—Short and medium term loans to assist fishermen engaged in primary fishing enterprise		355		147	
	Department of Fisheries	—Fishermen's indemnity plan covering vessel and lobster trap losses				Indeterminate	
			—	355	355	147	—
Exporters	Export Credits Insurance Corp.	—Guarantees for long term financing of exports of large capital goods				110,067	
		—Insurance for short and medium term financing of exports				64,847	
			—	—	—	174,914	—

Table 1—LENDING, GUARANTEEING AND INSURING ACTIVITIES REVIEWED (*Concluded*)

			Amounts Outstanding at Fiscal Year End December 31, 1960 or March 31, 1961				
			Loans (note 1)			*Commitments Under Guarantees or Insurance*	
Purpose	*Agency*	*Activity*	*Direct*	*Indirect*	*Total*	*Contingent*	*Fixed*
			(thousands of dollars)				
Immigrants	Department of Citizenship and Immigration	—Short term loans to immigrants to cover cost of transportation, and other expenses	3,427		3,427	—	—
Public Servants	Department of Finance	—Public service Superannuation, Retirement and Death Benefits					1,479,983 (note 3)
	Department of National Defence	—Canadian Forces Superannuation and Death Benefits					1,163,478 (note 3)
	Royal Canadian Mounted Police	—R.C.M.P. Superannuation and Dependents Benefits					29,483 (note 3)
							2,672,944
General Public	Department of Labour	—Sale of Annuities					1,199,123 (note 3)
			—	—	—	—	3,872,067
			1,803,618	2,987,812	4,791,430	3,335,793	3,872,067

Notes:—1. Where loans, or some portion thereof, are insured or guaranteed, these amounts are shown both as loans and as guarantees or insurance.
2. Loans for university dormitories and sewerage projects were not authorized by Parliament until December 1960 and accordingly none were outstanding at December 31, 1960.
3. These amounts represent the liability recorded in the Statement of Assets and Liabilities included in the 1960-61 Public Accounts, and do not reflect an actuarial calculation of the commitment.

There is always a danger that secondary services may increase in scope and intensity when a programme declines in volume and the staff endeavour to justify their continued existence. Wider adoption of the practice of the Farm Credit Corporation, which charges a fee for supervision, together with a more accurate assessment of the cost of these secondary services might help to preserve a reasonable balance.

3

ORGANIZATIONS PROVIDING SERVICES

TYPES OF ORGANIZATION

The programmes examined exhibit no clear pattern to suggest that present forms of organization for the administration of loans, guarantees and insurance result from any consistent policy or accepted set of principles. Even within a single field of activity, a mixture or combination of methods and organizations may be employed.

Private Financial Institutions

The government uses the services of the chartered banks in certain lending programmes for farmers, fishermen, veterans, small businessmen and homeowners (for housing improvements). Banks and other private financial institutions, including trust, loan and insurance companies have also been used in housing finance and in a variety of other ways. After 1935, federal housing loans were on a partnership basis; the government supplied some of the funds and, with partial government guarantees, financial institutions provided the balance and administered the loans. In 1947, the Central Mortgage and Housing Corporation began guaranteeing a minimum return to lending institutions on land assembly projects; later, similar guarantees were made available for rental housing. Joint loans continued until 1954, with the government providing one-quarter of the funds and guaranteeing, in various ways, the balance of the loans. In that year, legislative amendments altered the role of the Corporation from that of partner to that of insurer. Private lenders, including for the first time the chartered banks, advanced the full amount of each loan but were protected against loss through an insurance scheme

administered by the Corporation, the homeowner paying a fee for the insurance.

Government Organizations

Both departmental and other forms of government organization have been used to execute certain programmes of financial assistance.

Programmes originating before World War II were generally executed and administered by departments, although the Canadian Farm Loan Board was created in the late 1920's to carry out a lending programme similar to that of its successor, the Farm Credit Corporation. Housing loans were the responsibility of the Department of Finance until 1946 and the sale of annuities has been a departmental responsibility since 1908. Over the past twenty years, the Department of Finance was made responsible for the administration of the four guarantee programmes previously described.

Programmes not under direct departmental administration are usually conducted by corporate agencies specially formed for the purpose. The Industrial Development Bank and the Export Credits Insurance Corporation are ventures into relatively new fields of assistance to business. The Central Mortgage and Housing Corporation, the government's principal agent in the housing field, is responsible for the largest volume of loans, both direct and indirect. The Farm Credit Corporation was formed in 1959 to engage in direct lending on farm mortgages.

Most of the programmes administered by departments, such as the Fishermen's Indemnity Plan and loans to immigrants, are small and relate to other departmental activities. However, the programmes administered by the Director, the Veterans' Land Act, while closely associated with other programmes of the Department of Veterans Affairs, resemble those of two corporate agencies: the Central Mortgage and Housing Corporation and the Farm Credit Corporation. All three lend directly on long-term mortgages or agreements for sale, and require field staffs spread across Canada to administer their programmes.

Boards of Directors of Corporate Agencies

The corporate agencies of the government operating in this field vary in form although, generally, the objective has been to model them on comparable institutions in the business world. Boards of directors (or an equivalent) have been appointed for all corporate agencies, but responsibilities and composition vary. Both the Farm Credit Corporation and the Export Credits Insurance Corporation have boards drawn entirely from the public service. Advisory committees of private citizens serve both organizations. The board

of the Central Mortgage and Housing Corporation has equal representation from within and without the public service. All but one of the directors of the Industrial Development Bank are the directors of the Bank of Canada, mostly drawn from outside government service. Neither the Industrial Development Bank nor the Central Mortgage and Housing Corporation has an advisory committee.

SELECTION OF TYPE OF ORGANIZATION

Thus, in the past, the form of organization chosen to conduct lending, guaranteeing and insuring programmes has not followed any clear pattern. Nevertheless, the use of private versus government facilities, the choice between a direct departmental operation, a departmental agency, or a corporate agency, and the selection of directors for corporate agencies are all affected by many of the same considerations. Your Commissioners are of the opinion that an enunciation of some principles or guidelines would therefore be helpful.

Private Financial Institutions

In allocating administrative responsibility for lending, guaranteeing and insuring activities, the first consideration should be whether private institutions can be used to implement the programme. The government and the public alike derive benefits from the use of outside facilities to provide services for the public—the same advantages as those obtained when supporting services are purchased from commercial sources, which are discussed by your Commissioners in the report on *The Make or Buy Problem*. For the government, unnecessary growth is curtailed, distraction from pertinent public responsibilities is avoided, and tax revenues are enhanced; for the public, private institutions are strengthened, thereby enabling them to provide better service.

Most direct lending activities undertaken by the government have required new organizations with outlying units across Canada. Often an acceptable standard of service cannot be provided unless representatives of the agency are widely dispersed. Employees are frequently assigned to offices where work loads are insufficient to keep them fully employed. The scale of such organizations, once established, rarely adjusts automatically to varying demands for service, and it is extremely difficult to terminate their existence when their usefulness has ceased. On the other hand, the chartered banks and other private financial institutions already have widespread branch organizations established throughout Canada. They can often undertake to provide additional financial services without any great increase in staff, and variations in the level of demand for these services can be flexibly met. Government use of the facilities of these insti-

tutions may enhance their ability to give service, whereas competition from government agencies may have the opposite effect. Above all, the most effective way to isolate lending programmes from political pressures is through the use of private institutions.

However, not all programmes can be carried out in this way. In fact, private financial institutions would probably be unwilling to undertake most of the programmes now administered by government agencies, particularly in their present form. The extensive counselling services offered under the *Veterans' Land Act* programme, and the extensive inspection of new housing construction by the Central Mortgage and Housing Corporation, designed primarily to assist the borrower to an extent beyond normal commercial practice, are not activities that a private institution is equipped to undertake. Programmes of a paternalistic nature, where the service provided may suffer if governed too closely by cost considerations, are generally unsuited to private administration.

Present practices have demonstrated that a successful programme can be developed by using private facilities in combination with a government agency. For example, the Central Mortgage and Housing Corporation assumes responsibility for all housing inspections, even though many insured mortgages are made by private lenders. While a variety of approaches may be necessary to achieve all the government's objectives, those which most closely accord to existing commercial patterns are to be preferred, since they may permit the use of private facilities to some degree, whereas the alternatives may not.

It is therefore concluded that the government should undertake to provide services directly, either for new programmes or for changes in existing programmes, only when it is clearly evident that private facilities cannot be effectively used.

The Crown Corporation

Programmes carried out by a branch or division of a department are under the direct control of the responsible minister, and must comply with general regulations on financial, personnel and administrative procedures. Finances are provided annually by Parliament, accounts are kept on a cash basis, and all receipts are deposited in the Consolidated Revenue Fund.

By contrast, programmes carried out through corporate agencies are relatively remote from the supervision of the responsible minister, although in practice there are some significant variations. Crown corporations operate with greater freedom from the detailed regulations of the Treasury Board, and often personnel may be selected and managed without reference to the Civil Service Commission. Financial and accounting procedures usually follow those of comparable private organizations.

If recommendations made by your Commissioners elsewhere are implemented, departments will enjoy greater freedom in financial, personnel and administrative matters, and much of the present sharp differentiation between departments and corporate agencies will disappear. Nevertheless, it will probably still be possible for a corporate agency to organize itself more closely along the lines of similar private institutions, conducting legal transactions, administrative procedures, and the like, in a manner generally familiar to the public.

More important, however, may be the greater degree of independence from the political process that a corporate agency enjoys, since it is apt to be more independent than either an integral branch of a minister's own department or a departmental agency. Nevertheless, there can be no true independence when the directors are all public servants, regardless of their rank or the departments to which they belong. While it may appear expedient, in exceptional cases, to fill a board with public servants, such a course really calls in question the need for the use of the corporate form.

Even when chosen from outside the public service, a board of directors can have no real independence unless clear policy guidelines are laid down and financial arrangements permit the recovery of operating costs from revenues or statutory grants. A board can either run the agency in fact, receiving ministerial guidance only in respect to major policy, or it may be merely a buffer between the minister and the staff of the agency.

Your Commissioners take the view that the corporate form should be chosen as a vehicle for lending programmes only where it can function in a normal corporate way, with responsibility for operations vested in a competent board of directors who can be held accountable for performance. In such cases, board members should be chosen primarily for their judgment and management experience, not to represent regions, users, and so on. Corporate agencies may need the expert advice and collaboration of members of the Department of Finance, the Bank of Canada, or other agencies, but external participation in the affairs of the corporation or in the deliberations of its board should be on an advisory basis only.

Direct Departmental Operation

Programmes that are not intended to be financially self-supporting and programmes that embody unusual types of service to borrowers are not suitable for execution either by private financial institutions or by Crown corporations. The cost of making interest-free loans or rendering gratuitous services has significance only as departmental expenditure under approved government programmes. Thus, logically, the programme offering interest-free loans to

immigrants remains a departmental responsibility. The Fishermen's Indemnity Plan is also best operated departmentally, because premiums earned are less than claims paid and no administrative costs are recovered.

Similarly, the guarantee or insurance features of plans under which private institutions do the lending must be administered by the government. The staffs required are not so large as to warrant the establishment of separate agencies. Under the supervision of the Department of Finance, such programmes can be harmonized with other financial and economic programmes. The Mortgage Insurance Scheme of the Central Mortgage and Housing Corporation is a possible exception to this general rule, because it is closely related to the other responsibilities of the Corporation.

Conclusions

The foregoing considerations lead to certain general conclusions about suitable forms of organization for government lending, guaranteeing and insuring:

- Chartered banks and other private financial institutions should be made responsible, in whole or in part, for administering programmes offering benefits to widespread segments of the population, using their existing branch facilities for this purpose. The supervision of programmes embodying guarantee or insurance against loss should be done by a department—preferably the Department of Finance.

- Corporate agencies should be used only when the management of the programme is to be entrusted to an independent board of directors and financial viability can be provided by suitable capitalization and adequate revenues or statutory grants.

- Departmental agencies should be used to administer programmes requiring field organizations and where the benefits offered include the provision of specialized services or assistance not suitably provided by private institutions. The use of advisory committees from outside the public service may be warranted in such cases.

- Direct departmental operation, through a branch or division, is appropriate for programmes with a very limited class of beneficiaries, or where cost recovery is not intended.

4

FINANCING OF SERVICES

DEPARTMENTAL PROGRAMMES

Departments generally obtain their annual financial requirements through parliamentary appropriations of funds to cover both advances and costs of administration. No charge is made to a department for the use of the money to be advanced, while repayments, interest and other fees received from beneficiaries are credited to the Consolidated Revenue Fund.

In business, present and prospective earnings determine whether a service to the public will be offered or maintained. The government, however, offers certain services with little regard to cost or profit, relying on its general revenues to finance departmental programmes. Services considered to be in the national interest might prove abortive if full costs were charged to the beneficiaries. The future level of operations is governed more by the willingness of Parliament to appropriate funds for these purposes than by the balance between income and expenditure.

For example, sales agreements under the *Veterans' Land Act* bear interest at three and one-half per cent, which is less than the current borrowing cost to the Crown, but the programme is not charged for the use of public funds. Some departmental programmes, such as the sale of government annuities by the Department of Labour, set premiums without regard to administrative costs, which are charged to parliamentary appropriations. Receipts from many programmes of this nature fail to cover even these direct disbursements, and Parliament is thus often called upon to appropriate additional funds to meet further deficiencies. Because cost allocation between departments is seldom complete, departmental lending programmes are normally in receipt

of a further hidden subsidy in the form of free accommodation, postage, superannuation coverage, and so forth, which are provided to them without charge. Thus the true cost of the financial services provided by departments is not usually computed or generally appreciated.

LENDING PROGRAMMES (CORPORATE AGENCIES)

Crown corporations are normally expected to follow more closely the general financial practice of attempting to balance income with outgo. They usually pay for all services received from other government departments and agencies, and are expected to meet all costs. Subsidiary activities, such as housing research, which are not expected to earn sufficient revenue to cover costs, are sometimes financed by parliamentary appropriations. Otherwise, corporate agencies are provided with money for their operations in the following ways:

- Provision of capital stock and contributions of a capital nature voted by Parliament,
- Interest-bearing loans from public funds,
- Public borrowings,
- Charges to beneficiaries.

One of the requisites for an independent Crown corporation is a sound capital structure. An agency can be truly independent only if it has sufficient capital to meet its operating requirements and to cover its losses in the ordinary course. Charges to those using its services must, of course, bear some adequate relationship to costs. Since a proper assessment of performance must take into account the amount of capital employed, regardless of its form, charges for the use of public money should be based on uniform principles.

Three major lending organizations, all corporate agencies, were examined in the course of this review—the Central Mortgage and Housing Corporation, the Farm Credit Corporation, and the Industrial Development Bank. Their financing has little in common.

Capital and Retained Earnings

The Central Mortgage and Housing Corporation, at December 31, 1960, had paid up capital of $25 million, all subscribed by the government, and borrows large sums from the government at varying rates of interest. The corporation is permitted to retain earnings up to $5 million, and has done so; consequently,

all profits are now turned over to the Receiver-General annually, but the surrendered profits are not set off against the Corporation's indebtedness to the Crown. With assets of approximately $1,600 million, capital and retained earnings are currently in a ratio of 1:52.

The Farm Credit Corporation, at March 31, 1961, had a capital of $6.4 million subscribed by the government, and has retained earnings of over $3.5 million. Loans to farmers approximated $162 million, giving a ratio of 1:16. When retained earnings equal the Corporation's $8 million capital, unless the government subscribes for additional capital stock, all future profits are to be surrendered annually. The ratio of equity to loans outstanding may be expected to vary considerably, because the financial structure of the Corporation need bear no relationship to varying volumes of business.

The Industrial Development Bank had, at September 30, 1961, about $124 million of loans outstanding and $44 million in capital and retained earnings, a ratio of 1:2.8. There is no ceiling on the amount the Bank may accumulate and retain out of earnings. Since annual dividends, if paid, are limited to four per cent on its capital stock, all of which is held by the Bank of Canada, the amounts accumulated may be expected to become even larger, but again not necessarily varying in relation to loans outstanding.

The capital and surplus contributions of the government to these corporate agencies, on which no return is required to be paid, are not made without cost to the government as a whole. If this money were put to other uses, the total borrowings of the government and interest costs thereon would be reduced. Experience shows that Crown corporations are generally reluctant to pay dividends, even when their funds may be in excess of current requirements. Quite naturally, the management regards funds accumulated out of earnings as belonging to the corporation, and seeks to retain continued use thereof at no cost. But in the absence of charges to corporate agencies for capital held by them, the true cost of their programmes is not revealed.

The principal factor governing the amount of capital and retained earnings that a corporate agency should possess, beyond necessary working capital, is the need for protection against future losses. The loss experience of all corporations reviewed has been favourable, and none gives cause for present alarm. Nevertheless, if these corporations are to operate independently, their managements require freedom to determine, build and retain reasonable reserves against losses, without recourse to the government. Above a reasonable level, however, the government is the logical resort in a major emergency. Capital reserves and retained earnings should vary with loans outstanding, but no Crown corporation should seek to retain amounts beyond the prudent limits observed by private lending institutions. If these agencies

were charged for the use of capital contributed and earnings retained, any tendency to retain excessive reserves would be reduced.

Borrowed Money

Different borrowing practices are followed by the three Crown corporations examined. The Industrial Development Bank borrows only from its parent, the Bank of Canada, while the other two borrow from the government through the Minister of Finance. Both the Department of Finance and the Bank of Canada charge interest at rates related to the current cost of money, with a small loading to cover handling costs. The Department of Finance computes its lending rate only twice annually, thereby giving the borrowing agencies a six-month option on the rates at which they can borrow. The Bank of Canada makes a fresh calculation every fortnight, with the result that rates to the Industrial Development Bank are substantially in line with current money costs. The Bank also gives greater recognition to the period of the loan. One range of terms should be applicable to all these agencies, and the practice of the Bank of Canada seems the more appropriate.

Interest Charges to the Public

Table 2 shows the interest charged by the three corporate agencies and the charges for loans made under programmes administered by government departments. Wide variations in the charges and a general lack of consistency are revealed.

Interest charges run from nil to six and one-half per cent. Public policy may call for the offering of loans through government departments at less than normal interest rates, but such a policy imposed on a corporate agency may jeopardize its financial independence. Moreover, the interest rates charged under the various programmes administered by the Central Mortgage and Housing Corporation show no appropriate relationship either to the term of the loans or to the character of the risks involved. The five per cent lending rate of the Farm Credit Corporation bears no proper relationship to costs.

Authority to set or alter interest rates under the various programmes also varies. The Farm Credit Corporation's rate is set by statute; the Central Mortgage and Housing Corporation's rates are established by Order in Council; and the Board of Directors of the Industrial Development Bank themselves set and vary the rates charged by the Bank.

The fixing of rates by statute can lead to anomalous results. For example, the rate set by Order in Council for funds advanced by the government to the Farm Credit Corporation was recently five and three-quarters per cent,

Table 2—VARIATION IN CURRENT LEVEL OF INTEREST CHARGES ON LOANS

Purpose	*Agency*	*Activity*	*Interest Rate*	*How Fixed*	*Maximum Term of Loan*
Housing	Central Mortgage and Housing Corporation	—Long term loans for housing	6½%	Order in Council	35 years
		—Long term loans for low or moderate cost housing for employees of a primary produce company	6⅜%	Order in Council	35 years
		—Long term loans for low or moderate rental projects made to limited-dividend corporations	5⅛%	Order in Council	50 years
		—Long term loans for university dormitories and sewerage projects	5¼%	Order in Council	50 years
Farmers	Farm Credit Corporation	—Long term farm mortgage loans	5%	Statute	30 years
	Canadian Wheat Board	—Loans against undelivered crops	NIL unless default	Statute	1½ years
Business	Industrial Development Bank	—Credit to industry, trade or other business undertakings by supplementing activities of other tenders	6–½%	Board of Directors	none fixed but normally in 5–10 year range
Veterans	Department of Veterans Affairs	—Financial assistance including conditional grants for settlement of veterans in full or part time agricultural pursuits or as commercial fishermen	3–½%	Statute	20 years
		—Long term farm mortgage loans	5%	Statute	30 years
Immigrants	Department of Citizenship and Immigration	—Short term loans to immigrants to cover cost of transportation and other expenses	NIL	Order in Council	2 years

while the governing statute specifies five per cent as the maximum rate that the Corporation may charge borrowers. In the absence of legislative amendment, the total reserves of the Corporation and of its predecessor, the Canadian Farm Loan Board, accumulated over a quarter of a century, may be dissipated through a statutory obligation to lend money at less than cost.

Furthermore, although statutory rates may initially be set at an appropriate level, changes in the money markets may put such rates out of line. For example, the three and one-half per cent interest rate charged on agreements of sale under the *Veterans' Land Act* has remained unchanged for almost two decades, no adjustments having been made to reflect the wide variations that have taken place in the cost of money during the period. It seems appropriate that interest rates should be set or altered on the initiative of a corporate agency's board of directors but, since public money is involved, such rates should, in the opinion of your Commissioners, be subject to the approval of the Governor in Council. This procedure will prevent the development of inconsistencies and anomalies which enable borrowers with rights under more than one programme to borrow more cheaply from one government agency than from another for identical purposes.

We therefore recommend that:

1 Consideration be given to revising the basis of financing Crown corporations administering lending programmes, to the end that the cost of capital provided in any form, including retained earnings, be consistently and equitably borne.

2 The interest charges and other terms of public loans to Crown corporations engaged in lending activities be based on uniform principles, taking into account the current cost of money to the government, the term of the loan, and other relevant factors.

3 For loans made by Crown corporations to the public, interest rates be established from time to time by the board of each corporation without statutory limitation but subject to approval by the Governor in Council.

GUARANTEE AND INSURANCE PROGRAMMES

Guarantee and insurance programmes are of two types; guarantees or insurance are offered either directly to the public or to private financial institutions as an inducement to lend money to the public.

Charges to the Public

Borrowing charges under programmes backed by government guarantees or insurance are governed by considerations different from those determining the charges made by the government to recover its own costs. In Table 3, both sets of charges, where they exist, are shown for each programme, along with other pertinent information.

With one exception, the statutes administered by the Guaranteed Loans Division of the Department of Finance, providing for loans through the chartered banks, specify a maximum interest charge to the borrower of five per cent. The *Small Businesses Loans Act* sets no statutory maximum, and the current rate has been established by Order in Council at five and one-half per cent. Loans under the *Home Improvement Loans Act,* a very similar programme administered by the Central Mortgage and Housing Corporation, carry a maximum interest rate of six per cent, also set by Order in Council.

While it is recognized the deliberate intention of these government lending programmes is to make credit available at lower rates than are otherwise obtainable, these disparities are difficult to understand. The setting of a rate by Parliament without adequate machinery for variation may, as a result of fluctuations in money markets, have a detrimental effect on the success of the programme. Private financial organizations making the loans may find more profitable ways to employ their funds and therefore become less vigorous in their support.

Similar inconsistencies are shown in the charges made to the borrower to cover the cost of the guarantee or insurance provided by the government under these programmes. No charge is levied for any of the guarantees administered by the Guaranteed Loans Division of the Department of Finance. Neither the borrower nor the lender contributes towards the cost of losses or of administrative expenses of the government under these programmes; both are met out of parliamentary appropriations. The Central Mortgage and Housing Corporation charges a statutory fee of one per cent for the insurance of home improvement loans. Administrative expenses are not charged against this revenue but are met out of the general revenues of the Corporation. Losses are paid out of premium receipts and the balance is held in a reserve to provide for future losses.

Premiums or equivalent charges are levied under all programmes offering

protection in the form of insurance either directly to the public or to those institutions lending to the public. The relationship of these premiums or charges to actual loss experience varies greatly. The experience of the Central Mortgage and Housing Corporation illustrates one extreme. The losses paid under the Home Improvement Insurance scheme have been less than one-fifth of the income from the one per cent fee collected, with the result that accumulated assets currently represent almost twenty per cent of the total contingent liability outstanding. At the other extreme, claims paid for crop deficiencies under the Prairie Farm Assistance programme and disbursements for losses of lobster traps under the Fishermen's Indemnity Plan have been more than double the charges levied. The Export Credits Insurance Corporation, with premium income approximately equal to all losses and administrative expenses to date, reflects a more appropriate relationship.

Reserves for Losses

Further inconsistencies are disclosed by procedures for dealing with losses. No reserves for probable future losses are established in respect of programmes administered by any department; both losses and administrative expenses are paid out of parliamentary appropriations. Where charges are made to borrowers under such programmes, they have not been sufficient to cover even current losses, leaving nothing as a reserve for future losses. Guarantee programmes, such as those supervised by the Guaranteed Loans Division of the Department of Finance, have no revenue, and losses are charged to parliamentary appropriations.

Both the two corporate agencies operating guarantee or insurance programmes maintain reserves to cover future losses but they are differently established. The Export Credits Insurance Corporation may, by law, receive \$15 million from the Minister of Finance in subscriptions for capital stock, and the Minister may pay an additional sum not exceeding \$5 million into a Surplus Account. The Minister has taken up shares only to the value of \$5 million and has paid in the capital surplus; the Corporation thus has a claim on a further \$10 million. The Minister of Finance may also lend the Corporation up to five times the paid-up capital, but no loans have so far been made. Because both losses and expenses to date have been met out of current revenue, the Corporation has been able to invest a large portion of its capital and reserves in government securities, and earnings thereon of more than \$5 million have been accumulated and retained by the Corporation. The Corporation's total insurance liabilities at the end of 1960 were \$64 million, in relation to which contributed capital and retained earnings stood in a ratio of 1:4.

Table 3—VARIATION IN CURRENT LEVEL OF INTEREST AND OTHER CHARGES ON GUARANTEE AND INSURANCE PROGRAMMES

Purpose	*Agency*	*Activity*	*Maximum Interest Charged to Borrower*	*How Fixed*	*Charge for Guarantee or Insurance*	*How Fixed*	*Extent of Guarantee or Insurance Cover*
			A—GUARANTEE PROGRAMMES				
Farmers	Department of Finance—*Farm Improvement Loans Act*	Intermediate and short term credit to farmers for improvement and development of farms and for improvement of living conditions thereon	5%	Statute	Nil	—	10% of all loans of each bank (maximum term 10 years)
Business	Department of Finance—*Small Businesses Loans Act*	Credit to proprietors of small business enterprises for modernization and improvement of equipment and premises	5½%	Order in Council	Nil	—	10% of all loans of each bank (maximum term 10 years)
Veterans	Department of Finance—*Veterans' Business and Professional Loans Act*	Medium and short term credit to assist veterans in their establishment in business or professionally	5%	Statute	Nil	—	For each bank 25% up to $1,000,000 15% thereover (maximum term 10 years)
Fishermen	Department of Finance—*Fisheries Improvement Loans Act*	Medium and short term credit to assist fishermen engaged in primary fishing enterprises	5%	Statute	Nil	—	For each lender 15% up to $500,000 10% thereover (maximum term 8 years)
Exporters	Export Credits Insurance Corporation	Government guarantees for long term financing of exports of large capital goods	varied	Order in Council	Nil	—	100% No maximum return
			B—INSURANCE PROGRAMMES				
Housing	Central Mortgage and Housing Corporation	Insurance of long term mortgage loans for housing	6½%	Order in Council	Single premium ranging from 1¾ to 2½% of loan	Statute	100% of principal and interest and charges to stated maximum

		Rental guarantee insurance to owners of low and moderate rental housing	Program inactive–no rate available	Order in Council	Annual premium ranging from 1¾ to 2½% of rental guarantee	Statute	Maximum is 85% of annual rental as determined by CMHC. Maximum term is 30 years. CMHC may terminate by purchasing property at fixed price
		Medium and short term credit for improvement of existing housing	6%	Order in Council	Single premium of 1% of loan	Statute	Maximum liability to each lender is 5% of total of all loans of this type made by each lender and is limited over-all to $25 million
Farmers	Department of Agriculture	Assistance for Western farmers	—	—	1% on all grain sold to licensed dealers	Statute	$2 to $4 per acre up to a maximum of $800 per farmer
Fishermen	Department of Fisheries	Indemnity plan covering vessel and lobster trap losses	—	—	Vessel scheme — Annual premium 1% of appraised value	Order in Council	Vessel scheme—max. value for total loss ranges from 60–70% of appraised value. For partial loss a deductible ranging from 15–30% is applied
					Trap scheme—Seasonal premium ranging from 5¢ to 35¢ per trap	Order in Council	Trap scheme—deductibles range from 20% to 30% and indemnity from 90¢ to $3.75 per trap
Exporters	Export Credits Insurance Corporation	Insurance for medium and short term financing of exports	—	—	Varied but the average is about 1% of the risk undertaken	Board of Directors	Insurance covers up to a total of 85% of the loss

The two insurance schemes and the rental guarantee programme administered by the Central Mortgage and Housing Corporation have substantial assets segregated in separate funds to provide for future claims under each of the programmes. The accumulated reserves show very different relationships to the amounts at risk under each programme, as shown in Table 4.

Table 4—CENTRAL MORTGAGE AND HOUSING CORPORATION – RESERVES AND CONTINGENT LIABILITIES – DECEMBER 31, 1961

	Reserve Fund Assets	*Approximate Contingent Liability*	*Ratio*
	$	$	
Mortgage Insurance Scheme	86,768,574	3,640,000,000	1:42
Home Improvement Insurance Scheme	2,193,232	11,325,000	1:5
Rental Guarantees	3,726,563	15,333,000	1:4

Investment of Reserves

At the end of March 1961, the Export Credits Insurance Corporation had investments in treasury bills and government bonds of over $16 million. The Corporation's policy is to maintain about twenty-five per cent of its investments in short-term securities, another twenty-five per cent in medium-term investments, and the balance in long-term bonds. Considering the nature of the Corporation's business, where claims can arise suddenly out of exchange difficulties or political upheavals, the wisdom of keeping this large proportion of investments in long-term bonds, which are subject to substantial price fluctuations, is open to question.

The investments of the insurance or guarantee funds administered by the Central Mortgage and Housing Corporation show the same concentration in long-term bonds. The largest fund, the Mortgage Insurance Fund, has over two-thirds of the bond portfolio maturing in more than fifteen years. The method of settling claims against the Fund makes the wisdom of the present policy particularly questionable.

At present, a lender, upon acquiring title to the property and conveying it to the Corporation, is entitled to recover in cash the full amount due on the mortgage outstanding. In this respect, the practice differs materially from that of the United States Government under its mortgage insurance scheme. There the practice is to issue a government debenture to the lender in return for title to the real estate. The debenture interest rate is based on the long-term yield on United States Government bonds at the time the

mortgage was first insured, and the maturity date is three years beyond that of the original mortgage.

The Canadian practice is more favourable, affording greater incentive to the lender, and present administrative requirements are simple. Nevertheless, the possibility of large cash outlays having to be made from the Fund should be recognized. Liquidation of the Fund's investments on a large scale could lead to serious losses in view of the long-term nature of present investments.

Conclusions

In summary, charges to the public under lending programmes supported by government guarantee or insurance should be established and varied in the flexible manner proposed for loans offered directly by the government. The creation of reserves is normally desirable, because such programmes cannot be conducted without losses arising from defaults by borrowers. Where reserves are established, their dimensions and the level of charges to borrowers should be determined only after reference to the best available estimates of prospective losses.

The risks involved in these programmes are by no means similar, and therefore no uniform relationship between reserves and liabilities is to be expected. Continuing review of the several programmes is needed to determine whether the original basis of each plan remains appropriate under current conditions. Changes in programmes, or experience, may require periodic increases or reductions in charges, in order to maintain the integrity of reserves.

We therefore recommend that:

1 Charges to borrowers under programmes operated by private financial institutions with government guarantees or insurance be determined from time to time by the Governor in Council without statutory limitation.

2 Charges for guarantees or insurance under existing programmes be re-examined, and consideration be given to harmonizing the level of such charges with government costs, including adequate provision for anticipated losses.

5

CENTRAL POLICY AND CO-ORDINATION

The varying practices and policies of individual agencies and programmes suggest strongly that central co-ordination is needed to secure greater consistency in government lending, guaranteeing and insuring activities. The present confused situation reflects the creation of special agencies and programmes over a long period of time, by different governments, by ministers of different departments, and under different conditions. There is no evidence that any over-all policy with respect to the organization and financing of these activities has ever been considered.

The argument for developing machinery for co-ordination does not rest merely upon the attractiveness of a tidy pattern, or upon the desirability of a more uniform allocation of benefits to the particular groups involved. Together, these programmes represent loans of almost $5 billion of public money and contingent liabilities of almost $3 billion under guarantees and insurance. Sums of these dimensions are significant factors in the fiscal and economic policy of the country.

It is important that certain basic principles be observed in reviewing existing programmes and establishing new ones, particularly where departures from usual patterns may be necessary. While it is unrealistic to attempt to develop a single standard pattern suitable for all programmes of financial assistance, the establishment of an agreed body of criteria and principles would facilitate decisions. These should include:

- Basic factors to be taken into account in determining whether a programme can be implemented in whole or in part through private facilities, backed by government guarantees or insurance.

- Criteria for determining the appropriate government department or agency to be charged with responsibility.
- Principles to be observed in determining the method of financing programmes.
- Principles to be observed in designing a suitable capital structure, where a corporate agency is to be employed, so as to create reasonable financial independence.
- Factors to be considered in fixing and revising charges to beneficiaries.
- Methods of financial reporting to facilitate proper assessment of performance.

It is clear that, to give effect to this proposal, some central authority must be responsible for general co-ordination. Because of the sums involved, and since the programmes are all financial in character though coupled with broad public purposes, the controlling and co-ordinating role can best be undertaken by the Minister of Finance. The Department of Finance has been successful over the years in bringing about a good deal of effective co-ordination in an informal manner, but a more formal approach now appears desirable.

First, the problem would be simplified by making the Minister of Finance responsible for as many of the financial programmes as can be appropriately detached from the administration of other departments. All programmes where the services of the chartered banks are principally involved should be so administered, and other programmes may be susceptible to the same treatment although some will undoubtedly remain which should not be removed from the control of other ministers.

It is therefore suggested that the following procedures be adopted:

- All new programmes of financial assistance to individuals and businesses, and changes in any aspects of existing financial programmes, be submitted for approval by the Governor in Council only after review by the Minister of Finance.
- A system of reporting be instituted whereby pertinent financial information on all programmes is regularly submitted to the Department of Finance, to be there converted into a consolidated statement for the information and guidance of the Minister.
- Where, in the opinion of the Minister of Finance, financial agencies have funds in excess of current need, he should recommend to the Governor in

Council that they be paid over, either in reimbursement of advances previously made, or by way of interest-bearing deposit with the government.

- Where the Minister of Finance considers, in the light of current fiscal policy, that changes in existing programmes should be made, particularly changes in the volume of activity or in the level of charges to beneficiaries, he should so recommend to the Governor in Council.

The purpose of these proposals is not to place the Minister of Finance in a position of control over all the lending, guaranteeing and insuring activities of the government, but rather to establish appropriate conditions for the effective co-ordination of important financial aspects of these programmes with prevailing fiscal and monetary policies. Other ministers should retain complete responsibility for the operation of the financial agencies under their administration. The Treasury Board will be responsible for assessing performance, in the manner recommended for all other agencies of the government.

We therefore recommend that: The Minister of Finance be charged with continuing responsibility for the financial co-ordination of all programmes of lending, guaranteeing and insuring which provide financial assistance for the public.

6

OTHER CHANGES IN RESPONSIBILITY

THE INDUSTRIAL DEVELOPMENT BANK

The Industrial Development Bank, incorporated by statute in 1944, is a wholly-owned subsidiary of the Bank of Canada. The preamble to the *Industrial Development Bank Act* states that its purpose is:

> . . . to promote the economic welfare of Canada by increasing the effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular consideration to the financing problems of small enterprises . . .

The Bank was created in a period when the extreme shortage of credit in the 1930's had not been forgotten and the problems of post-war industrial readjustment lay just ahead. The fear that worth-while but highly hazardous ventures might fail to secure accommodation from conventional lenders led to the formation of the Bank. Loans were to be made only when "credit or other financial resources would not otherwise be available on reasonable terms and conditions", and only to those engaged or about to engage in an enterprise having for its purpose:

- the manufacture, processing or refrigeration of goods, wares and merchandise;
- the building, alteration or repair of ships or vessels; or
- the generating or distributing of electricity.

Parliament has thrice expanded the ambit of the legislation, and since 1961 the Industrial Development Bank has been empowered to extend credit to

any "enterprise in which is carried on any industry, trade or business undertaking of any kind". As a result, the Bank's operations are expected to expand materially. The staff was increased by sixty-one per cent between September 1960 and September 1961, largely in anticipation of the expected increase in business. Present numbers are approximately 450.

The legislation still treats the Bank as a special residual source of credit, to be tapped only when money is not otherwise available on reasonable terms and conditions, but it has become impracticable to police this statutory injunction. The evolution of credit facilities since the end of World War II has brought about a significant increase in the ranks of Canadian lenders and changes in the terms and form of medium- and long-term financing generally available. Today, when industrial financing is available for virtually any worth-while venture, at a price determined in the market-place and based on the risks involved, the Industrial Development Bank almost inevitably competes with other lenders.

As a subsidiary of the Bank of Canada, the Industrial Development Bank looks to the former to provide the funds for lending operations. The Minister of Finance is the sole shareholder of the Bank of Canada, which must annually surrender its surplus to the Consolidated Revenue Fund. It follows that, in substance if not in form, the Industrial Development Bank is using public money; but that money is twice removed from the control of Parliament, and no minister of the Crown is answerable either for the lending policies of the Bank or for the manner in which it conducts its affairs.

The direction of broad lending policy, the provision of funds to government agencies, the control over borrowing activities which engage the credit of Canada, as well as the co-ordination of all federal programmes of financial assistance, are subjects properly falling within the realm of the Minister of Finance. But the Industrial Development Bank is subject to no such ministerial control because it is a subsidiary of another agency which, by statute, enjoys exceptional independence. Thus, the Bank may:

- Fix and alter the interest rates charged to borrowers, without reference to Parliament or the Governor in Council.
- Borrow funds from the Bank of Canada, without reference to the Government or to the Minister of Finance, in amounts subject only to the over-all ceiling imposed by Parliament.
- Budget for its operations without any review by the Treasury Board or the Minister of Finance.

In the realm of management efficiency, there is evidence that major decisions governing the operations of the Industrial Development Bank are made

in the Bank of Canada rather than by an independent management team. This stems, in part, from the fact that the Governor of the Bank of Canada is the chief executive officer of both banks—an arrangement that is of questionable merit, having regard to their dissimilar functions. Existing procedures disclose practices and attitudes that are more appropriate to the conduct of the Bank of Canada than to the more competitive task of the Industrial Development Bank. Your Commissioners conclude that any acceptable solution will entail a more independent status for the Industrial Development Bank than it has so far enjoyed, and the appointment of its own chief executive officer.

The selection of the Bank of Canada to finance this lending activity and to provide a buffer between the government and the public had obvious attractions in 1944, but your Commissioners believe that, in the current situation, it would be in the public interest:

- to appoint the chief executive officer of the Industrial Development Bank by Order in Council, on the recommendation of the Board of Directors; and
- to subject the Industrial Development Bank to such general policy direction as the Minister of Finance may deem to be in the public interest, and to publish any formal ministerial direction in the annual report of the Bank.

By statute, the directors of the Bank are those persons who for the time being compose the board of directors of the Bank of Canada, together with the Deputy Minister of Trade and Commerce. Thus, the present board of sixteen directors consists of the Governor and Deputy Governor of the Bank of Canada, the Deputy Ministers of Finance and of Trade and Commerce, and twelve others who are geographically representative and must not be federal or provincial civil servants, or directors, officers or shareholders of a chartered bank. A hazardous and competitive business such as the Industrial Development Bank needs directors whose qualities and experience are distinguishable from those appropriate to a director of a central bank.

Your Commissioners are of the opinion that further consideration should be given to the provisions of the *Industrial Development Bank Act* with respect to the composition of the board of directors.

We therefore recommend that: Steps be taken to give greater independence to the management of the Industrial Development Bank and to bring the activities of the Bank more appropriately under the general control of the Minister of Finance.

VETERANS' LAND ADMINISTRATION

A Director, answerable to the Minister of Veterans Affairs, administers the *Veterans' Land Act* and has the status of a "corporation sole" to facilitate the ownership and transfer of property. Neverthless, he is subject to most of the financial, personnel and administrative regulations applicable to regular departments of government. His lending responsibilities are similar to, and somewhat overlap, those of two other lending agencies. The financial aid provided to veterans engaged in farming resembles the assistance provided generally by the Farm Credit Corporation, and the loans to veterans for building homes largely supplement loans made by the Central Mortgage and Housing Corporation. The main concern now is to eliminate any unnecessary duplication.

Some steps have already been taken. The Veterans' Land Act Administration and the Farm Credit Corporation have an arrangement whereby only one organization assigns staff in areas where the work load is light. This practice works well but is unsuitable as a permanent measure. Another arrangement transfers responsibility for administering housing loans, once the house is completed, to the Central Mortgage and Housing Corporation.

Loans to veterans engaged in full-time farming have declined from a peak of approximately 4,500 in the fiscal year 1947-48 to just over 300 in 1960-61. Loans to small holders decreased from 3,750 to 1,750 in the same period. Loans of both types have remained fairly constant in the past five years, but continuing administrative responsibilities will soon diminish.

The organization maintained is large and complex, although declining activity has permitted a reduction in staff from 1,041 to 738 in the past five years. The field organization at present includes eight district offices, five regional offices, twenty-seven sector offices and one hundred and nineteen field offices, of which forty-three are located in the homes of field officers. Operating costs approximate $5 million a year.

While the Minister of Veterans Affairs would continue to have responsibility for programmes affecting veterans, the administration of the *Veterans' Land Act* could be undertaken by the Farm Credit Corporation in rural areas, and by the Central Mortgage and Housing Corporation in suburban areas. This would still permit the Minister, through the Director and a small staff, to review programmes and practices to ensure that veterans are successfully rehabilitated.

We therefore recommend that: Consideration be given to the orderly termination of the activities of the Veterans' Land Act Administration, by utilizing the services of the Farm Credit Corporation and the Central Mortgage and Housing Corporation in administering the *Veterans' Land Act*.

HOME IMPROVEMENT LOANS

The Home Improvement Loans programme of the Central Mortgage and Housing Corporation is the only lending programme operated through chartered banks that is not under the administration of the Department of Finance. Although quite different from any other programme supervised by the Corporation, this programme dovetails with other housing programmes. Were the Department of Finance to act for the corporation in administering the Home Improvement Loans programme, policies could remain co-ordinated, duplication in administration would be eliminated, and worth-while economies would be achieved.

Lending programmes operated through the chartered banks depend in large measure on the co-operation of the banks. Administrative procedures would be simplified if, in future, the banks are required to deal with only one department or agency of government. In view of the low cost to the government of providing these loans, the past success of these programmes, and the extensive service that the facilities of the chartered banks provide to the public, your Commissioners feel that this consideration cannot be overlooked.

We therefore recommend that: Responsibility for the administration of the Home Improvement Loans programme be transferred to the Department of Finance.

7

SALE OF ANNUITIES

VOLUME AND COSTS

The sale of annuities is a different type of financial operation from those already reviewed, and one of the oldest. The government first started to sell annuities in 1908, in an attempt to encourage thrift among lower-income groups and to provide security in old age. In 1920, sales promotion was intensified, the annuity limit was raised from $1,200 per annum to $5,000, and benefits were broadened. In 1931 the maximum annuity was reduced to $1,200 per annum, a limit still in effect.

Premium rates were adjusted in the 1930's and new mortality tables adopted, in an attempt to eliminate actuarial deficiencies which were developing. However, the four per cent interest rate used in premium calculations made government annuities a bargain for many years when yields on government bonds were often below this level. Up to 1948, purchasers of deferred annuities were given the unusual privilege of purchasing an annuity up to the maximum permitted by law, paying only a nominal premium at the time of purchase, with the balance, based on rates fixed at the time of initial purchase, payable at any time up to the maturity of the contract. In view of the increasing life-span of annuitants, this option, which is based on earlier mortality tables, is very valuable to the buyer and costly to the government. The substantial growth in annuity business and a significant recent decline are reflected in the totals of premiums collected in certain selected years, as follows:

	($ millions)		*($ millions)*
1935	13.3	1955	68.6
1940	19.8	1960	56.0
1945	32.6	1961	48.5
1950	63.1		

There were 433,380 annuity contracts outstanding at the end of the fiscal year 1960-61. Annuities totalling $45 million a year were being paid on 83,480 of these contracts. The present value of these vested annuities is over $424 million, and the accumulation of premiums on deferred contracts more than $774 million. Thus, the total liability in respect of annuities in force is approximately $1.2 billion.

Funds received as premiums are used for current government purposes. However, the premiums received and the interest appropriated by Parliament as compensation for the use of funds are recorded for budgetary and accounting purposes in a separate account, to which all annuity payments are charged. These amounts have already proved inadequate to meet the government's liabilities; an additional $30.2 million has had to be appropriated and credited to the account, either to meet the difference between the value of accumulated premiums and the amounts payable at maturity, or to provide for changes in the rates of mortality to date. It is currently estimated that a further $40 million will be required to cover the cost of outstanding options granted to purchasers prior to 1948.

This programme has been subsidized since its inception, the full cost of administrative expenses being paid out of parliamentary appropriations. The Annuities Branch of the Department of Labour has over 170 employees. In addition, 84 Annuities Representatives sell annuities on a commission basis in 49 communities across Canada. Administrative expenses now exceed $1.5 million annually, of which just less than one-quarter represents commissions. More than $25 million has been appropriated over the history of the programme to cover these expenses. The costs of the programme already paid or still to be provided are substantial. Exclusive of future administrative expenses, the estimate is $95 million for those annuities sold from the inception of the programme to date.

CURRENT NEED

More annuities have been purchased by people of some means than by those in the lower income brackets for whom the scheme was designed. The original need has been modified by old age pensions, now paid on a universal basis.

In comparison with the position in 1908, when few facilities were available to provide for pensions and annuities, the field today is highly developed. Through employer-employee supported pension plans, life insurance schemes, and the sale of annuities in a variety of forms by financial institutions, ample facilities exist to provide against want in old age. Apart from a periodic attractiveness when premiums are allowed to get out of line, some inflexible

aspects of government annuity contracts make them less popular than competing forms. It is not unfair to suggest that the only circumstances in which they will be sold in volume is when they are priced below the current market; thus the cost of making good future deficiencies will be substantial indeed.

The essential responsibilities of the government are many, and unnecessary activities should therefore be avoided. Moreover, the programme has been very costly to the government because:

- Premiums have not been set so as to recover administrative costs.
- The interest rates used have been fairly consistently out of line with the money market, thereby often giving the purchaser a definite advantage.
- The mortality basis used has not been promptly adjusted to reflect increasing longevity, so that premiums have been lower than appropriate.
- The provision for deferred payment was an option permitting purchasers, at negligible expense, to commit the government to very costly undertakings.

Your Commissioners conclude that the programme is no longer necessary, and that the continuing drain on public funds should be arrested.

We therefore recommend that: The sale of government annuities be discontinued.

8

PENSION PLANS FOR PUBLIC SERVANTS

STATUTORY PLANS

Description

Pension plans for public servants fall into two groups: the statutory plans which embrace most public servants and members of the Armed Forces and the Royal Canadian Mounted Police; and pension schemes established by certain Crown corporations to provide for their employees, under plans comparable to those commonly used in commerce and industry. The plans of the Canadian National Railways and Trans-Canada Air Lines were not reviewed.

Many government employees and pensioners are covered by former plans; the three statutory plans currently in force are:

- The Public Service Superannuation scheme, which covers civil servants and the employees of certain boards, commissions, Crown corporations, and other agencies, is administered by the Department of Finance. At March 31, 1961, there were 165,783 contributors, and benefits are being paid to 34,574 pensioners.
- The Canadian Forces Superannuation scheme covers members of the Armed Forces. It is administered by the Department of National Defence, and each of the three Services maintains its own personnel records. At December 31, 1960, contributors to the scheme numbered 112,242, and benefits were being paid to 4,028.
- The Royal Canadian Mounted Police Superannuation scheme covers members of the Force and is administered by it. At December 31, 1959, there were 4,014 contributors and about 130 pensioners.

The main benefits afforded by these plans are as follows:

- Pensions payable under all plans are based on the average salary of the contributor for the six best years of his service. The annual pension is based on two per cent of this average, multiplied by the number of years of pensionable service, up to a maximum of thirty-five years.
- Participation for most of those eligible is compulsory. Men contribute six and one-half per cent of their earnings (six per cent for the Armed Forces) and women five per cent. Contributions cease after payments have been made into the plan for thirty-five years.
- Survivors' benefits entitle the widow to one-half of her husband's pension, plus one-tenth for each child up to the age of eighteen, provided the total does not exceed ninety per cent of the pension.
- Pensions normally become payable at age sixty-five in the Public Service scheme, with an optional earlier retirement from age sixty. Pensions are payable immediately, based on accrued benefits, without discount for age, if early retirements occur due to disability. Retirement ages are lower for the Armed Forces, ranging from forty-five for a rank equivalent to lieutenant in the Army, to fifty-five for a rank equivalent to lieutenant-general. The age for "other ranks" varies, but fifty is generally the compulsory retiring age.
- A small additional premium is paid for a lump sum death benefit amounting to the lesser of one year's salary or $5,000. This covers against death up to age 70.

One feature of the Public Service scheme is noteworthy. A person who has prior service with the government, or with certain other employers designated in the regulations, may elect, on joining the public service, to contribute thirteen per cent of his initial salary multiplied by the number of years of relevant prior service, thereby securing pension credits under the Public Service scheme equivalent to those that he would have earned in a like period in the public service.

Many of these benefits are greater, and therefore more costly, than those offered in private employment. The contribution that this pension policy makes in the management of government personnel is discussed in the report of your Commissioners on *Personnel Management*.

Costs

The costs to the government of providing these benefits are dealt with thus:

- Each year the government matches employees' current service payments into the public service scheme, and contributes 166⅔ per cent of the amount paid

by members of the Royal Canadian Mounted Police and the Armed Forces. Further amounts are contributed in respect of past service contributions by employees.

- Interest at the rate of one per cent per quarter is credited every three months on the balance in the superannuation accounts.
- In the public service superannuation scheme, an amount is contributed to cover increase in liability resulting, as described in the statute, from "any salary increase of general application to the public service."
- From time to time, although not according to any definite plan, further amounts are appropriated by Parliament to reduce actuarial valuation deficits.

The amounts in these superannuation accounts are not held in cash or invested in securities. Nor should they be, considering that it is the government that is assuming the obligation to pay these pensions. The government utilizes all the moneys for general government purposes, crediting the accounts with interest quarterly for the use of the funds. Normally, the government's contributions, as set forth above, are recorded as budgetary expenditures, but certain deficits, arising out of actuarial valuations in recent years, have been recorded as a deferred charge to be applied against the budgetary revenues of future years. The accumulated liability acknowledged in the government's accounts as at March 31, 1961, was over $2,672 million, of which $602 million remained to be charged to future years' revenue.

Many features of these plans make them costly to the government. The best-average-salary feature results in the government bearing a large portion of the cost of pensions resulting from spiralling of salary costs due to inflationary pressures. The privileges granted in respect of past service are most costly to the government under a best-average-salary plan, particularly when related to the number of years of service to be rendered by the new employee prior to retirement. Early compulsory retirement ages in the Armed Forces add very materially to the cost of pensions granted under the Canadian Forces superannuation scheme.

During the ten years ended March 31, 1960, employees contributed $304 million to the public service scheme alone, whereas the government contributed almost $633 million, apart from $279 million of interest credited. In addition, actuarial deficits of $275 million under this scheme have yet to be charged as a budgetary expenditure. Thus the ultimate cost to the government may be as much as three times the contributions of public servants.

Changes Required

The manner in which the government's share of the cost of pension benefits is acknowledged needs to be placed on a less haphazard basis. Some may question the need for the government to record, in advance, the cost of the pensions it will pay in the future of its retired employees, for the power to tax means that these pensions are more than adequately protected and funds can be obtained to pay them when they are due.

Commercial and industrial employers normally segregate funds in trust, or insure their obligations to employees by contracting with an insurance company. Furthermore, business men recognize that pensions to be paid at some future date are a cost of obtaining the employee's current services, and are therefore a cost to be recovered out of current revenue.

To recognize its liability, the government keeps special accounts for each plan, but present practices fail to acknowledge or record the true cost of providing pension benefits. A current need is for an orderly and realistic method of recording, as budgetary expenditures, the continuing actuarial deficits which are inevitable if wage levels in the public service continue to rise as in the past decade; another need is to bring pension costs out in the open.

Deficits, determined by actuarial valuations, exceed $602 million. No estimate has yet been made of the increased liability arising out of salary increases in 1961, or of that part of the cyclical salary adjustment granted in 1962. The Armed Forces scheme and the Royal Canadian Mounted Police scheme are currently being subjected to a statutory quinquennial valuation; further large actuarial deficits are anticipated in both. The liabilities of the Public Service scheme increased five-fold in the last decade, and those of the Armed Forces scheme more than ten-fold. An orderly method of budgeting for deficiencies, so as to amortize the amounts over a number of years, would be more appropriate than the present practice of making lump-sum provisions in years when surplus funds are available.

To achieve economies, possible through handling large volumes, to ensure impartial and independent administration, and to prevent possible abuses, your Commissioners believe that the three statutory plans should be brought under the administration of the Department of Finance.

We therefore recommend that:

1 A programme be authorized by statute to amortize systematically present and future valuation deficits of statutory pension plans by appropriate budgetary charges.

2 A study be made of present benefits in relation to costs, with particular attention

to the provisions permitting new employees to pay for past service outside the public service, and to the early compulsory retirement ages in the Armed Forces.

3 The administration of all statutory superannuation plans be undertaken by the Department of Finance, with record keeping the responsibility of the Accountant General.

PLANS OF CORPORATE AGENCIES

The following superannuation plans, which more closely resemble those in commerce and industry, were examined:

Bank of Canada (including the Industrial Development Bank)
Canadian Wheat Board
Canadian Arsenals Limited
Canadian Broadcasting Corporation
Central Mortgage and Housing Corporation
Eldorado Mining and Refining Limited (including its subsidiaries, Eldorado Aviation Limited and Northern Transportation Company Limited)
Halifax Relief Commission
International Fisheries Commission
Polymer Corporation Limited

The International Fisheries Commission insures its liabilities; the others segregate funds with trustees. The investments of these funds exceed $46 million, with approximately ten per cent invested in preferred and common stocks. Other investments include National Housing Act mortgages, and government and industrial bonds.

Benefits under most plans are modelled on the provisions of the Public Service scheme, but the plans of the Canadian Wheat Board, the Eldorado companies and Polymer Corporation Limited are more comparable to plans offered in the private sector. Throughout, there are small variations in contribution rates, retirement ages, rights on early retirement and minor benefits.

The Canadian Arsenals plan was merged with the Public Service scheme in January 1962. Many other Crown corporations, such as the Farm Credit Corporation and the Export Credits Insurance Corporation, obtain coverage for their employees under the Public Service scheme by assuming the cost of the government's matching contributions.

The question naturally arises as to the need for separate plans. They were originally created to enable the corporations to offer benefits similar to those offered by comparable private institutions. Some Crown corporations of a commercial nature prefer separate plans because of the need for flexibility in

collective bargaining. Benefits offered by private employers generally have improved greatly in the past decade, and most of the separate government agency plans have also increased their benefits.

A number of advantages could result from the merging of these separate pension plans with the Public Service scheme. Senior officers of the corporate agencies are frequently named trustees of the separate plans and, as such, may assume responsibility for investment of trust funds, a duty they are not necessarily qualified to discharge. The uniformity of pension benefits resulting from the suggested merger would facilitate transfers of personnel between agencies and departments. Accounting and record keeping would be carried out economically on electronic equipment, as part of the much larger volume of work in the Public Service scheme. Your Commissioners consider that it would be unwise, however, for the large corporate agencies of a commercial nature, such as the Canadian National Railways and Polymer, to merge their plans with the Public Service scheme.

We therefore recommend that: The Public Service Superannuation plan be extended to provide pension benefits for the employees of Crown corporations other than those engaged primarily in commercial activities where collective bargaining considerations apply.

PILOTS' PENSION PLANS

Most marine pilots in Canada are grouped in self-governing, independent bodies, formed within each pilotage district. These pilotage authorities may, subject to confirmation of their by-laws by Order in Council, provide for compulsory retirement of pilots at age 65, establish funds for the relief of superannuated or infirm pilots or their dependants, and determine the benefits to be paid and the persons entitled to participate. The legislation states that contributions to these funds, if not mutually agreed between the pilots and the pilotage authority, shall be fixed by the Minister of Transport. The government thus assumes some measure of responsibility.

Only one fund is in a solvent position. Deficits in the others, which have been calculated to exceed $1.2 million, have arisen through a steady improvement in benefits without corresponding increases in contributions. These plans cover no more than 360 pilots, and the deficiency on a per capita basis is extremely large. The Halifax plan has already ceased to operate, and others will encounter the same fate unless action be taken to place their financing on a sound basis.

Nevertheless, your Commissioners realize that a solution to this question is only part of the larger problem of clarifying the entire future status of pilots and the government's responsibilities to them.

We therefore recommend that: Either the pilots' pension plans be placed on a sound financial basis, or the government clarify its position by repealing those sections of the *Canada Shipping Act* that imply some responsibility.

9

ACTUARIAL SERVICES

Traditionally, the responsibilities of the Department of Insurance, which is headed by the Superintendent of Insurance under the Minister of Finance, have been concentrated on the supervision of the insurance companies, loan and trust companies, and co-operative credit associations that are subject to federal jurisdiction. The principal concern of the Department has been with the solvency of such institutions, in order to protect the public.

The Department has assembled a group of actuaries to carry out the examination of the companies under its supervision, and this group has come to be recognized as the central source of actuarial advice in the government. In fact, a very substantial proportion of time is occupied in making examinations and giving advice in relation to problems for which the Department has no official responsibility. The initiative in exploring the actuarial aspect of programmes lies with the responsible departments and agencies, and frequently advice is sought after, instead of before, commitments are made to undertake new obligations. There is no machinery within the government to require formal investigations or to provide for periodic actuarial scrutiny of all continuing programmes where statistical probabilities bear upon ultimate costs.

The annuity, pension, and insurance liabilities of the government at March 31, 1961, stood at almost $4 billion, an increase of $400 million from the preceding year. While some of these liabilities are periodically recalculated, no statutory provisions govern either the methods of valuation or the qualifications of those making the examination. In fact, this work is usually done by the Department of Insurance, but the informality of the approach, coupled

with the failure to require a systematic inspection of all programmes requiring actuarial investigation, constitutes a real danger for the future. For example, the heavy losses on government annuities might well have been avoided had proper weight been given to actuarial advice.

The need for periodic actuarial scrutiny is not confined to the programmes discussed in this report. Responsibilities of growing proportions are being assumed in other fields, such as the provision of social insurance, pension and welfare benefits—all having important actuarial connotations.

Your Commissioners believe that steps should now be taken to clarify the position of the Department of Insurance in relation to work undertaken for other departments and agencies. First, the employment of actuaries by other departments should be avoided, and all actuarial services throughout the government should be rendered by the Department of Insurance, using a competent staff of professional actuaries. Second, where statistical probabilities have a bearing on future cost, programme changes should be submitted to the Treasury Board for approval only after actuarial investigation has been made. Third, all such programmes should be subjected to periodic investigation on a systematic basis. Finally, to provide for possible emergencies, the Minister of Finance should be empowered, on the advice of the senior government actuary, to require actuarial investigation of any programme where, in the Minister's opinion, current provision for future liabilities is not clearly adequate.

We therefore recommend that:

1 The Department of Insurance be required to develop a comprehensive plan for initial and periodic examination of all programmes giving rise to liabilities, the ascertainment of which requires the application of actuarial science.

2 The approval of this plan and its implementation be the responsibility of the Treasury Board.

3 The Minister of Finance, with the advice of the senior actuary of the government, be empowered to require actuarial investigations in any case where, in the Minister's opinion, current provision for future liabilities may be inadequate.

17 THE POST OFFICE

SERVICES FOR THE PUBLIC

REPORT 17: THE POST OFFICE

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THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

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PART 1

1

INTRODUCTION

The Post Office has, since Confederation, seen little change in its function—the handling of the country's mails. While some departments are engaged to a major degree with the shifts of public policy as the country develops and must equip themselves to deal with the diverse factors by which such policy is influenced, the task of the Post Office Department is almost wholly operational. For this reason it lends itself more than most departments of government to the application of modern techniques, such as are employed by industry, to improve service and increase productivity. As an operating organization in search of efficiency, its main handicap is that it has to behave like a department of government—which, of course, it is.

The operations of the Post Office are many and varied—forwarding personal and business correspondence, distributing information, transporting goods, facilitating financial settlements, widespread distribution of advertising and promotional material, and other services. These familiar tasks, woven into the fabric of our daily existence, affect local life, social interests and business operations in every neighbourhood. The Post Office, in performing them, is more than a vast public utility. It is a unifying force throughout the country.

The review made by your Commissioners discloses that a commendable degree of efficiency has been achieved, in spite of the disabilities the Post Office suffers in the form of its organization and the control techniques to which it is subject. The changes recommended in this report are designed to improve the framework for management, to eliminate needless time-consuming procedures imposed by the government system of central control, and

to render the postal operations susceptible of appraisal through a meaningful system of accounts and financial reports. That significant cost savings can result from such changes is evident. Even more important may be the benefits accruing to the country as a whole through further improvement of its postal service.

2

THE SERVICES OF THE POST OFFICE

The Post Office carries approximately four billion pieces of mail each year—about 225 for every person in the country. The mails are handled through more than 11,000 post offices employing 40,000 people, of whom 27,000 are full-time civil servants. The fifty-two million money orders issued each year transfer moneys totalling over $800 million. The revenues of the Post Office approximate $200 million and its direct expenditures come to almost the same amount.

The individual offices range from very large to very small, 80 of the 11,000 account for four-fifths of all the mail. The scale of revenue for individual offices ranges from a high of $46 million per annum to a low of eleven dollars; employment varies from over four thousand to but a fraction of the time of a single person. Large offices occupy multi-storied buildings filled with modern machinery; the smallest may be simply a corner in a general store or a shelf in a farm house. The daily output of a large office may fill a fifteen-car railway mail train, while the small office may handle only a few letters and post cards.

The postal service embraces the collection, carriage and delivery of letters, newspapers, other published and printed matter, and parcels up to twenty-five pounds in weight. It issues money orders and in certain offices provides a savings bank service. A variety of additional special services offered is described hereafter.

The Post Office classifies the mail into four categories. In general, the classification is determined by the content of the mail matter. It is this classification which dictates the fee to be charged and the type of service to be rendered.

First Class Matter

This class is defined as letters, post cards and all matter wholly or partly in writing or typewriting, sealed or unsealed, except manuscripts of books and newspapers and certain dominion, provincial and municipal documents. In addition, money packets of bank notes, coin, bullion, gold dust, stocks, bonds, coupons and other securities negotiable by bearer, having a value of $100 or more, are classed as first class matter. By law, the collection, conveyance and delivery of letters in Canada is the sole and exclusive privilege of the Postmaster General, but other services in which the Post Office engages may be performed by other individuals or organizations.

First class matter receives preferred treatment throughout the whole postal system in order to achieve maximum speed of delivery. The goal is to deliver all first class mail the day following its deposit in a Post Office, and this goal is reached with impressive regularity except where the time or distance renders that impossible. Tests made of the service between Toronto, Montreal and Vancouver indicate that more than eighty per cent of the west-bound mail meets this objective, and that the east-bound mail failed, in part, only where time differentials had full impact. Some large city post offices attempt to have mail that is collected in the morning delivered in the afternoon of the same day, as is done in some European cities. It may well be that such a goal is less important for Canadian cities due to more extensive telephone communication facilities. Moreover, single delivery in residential areas and the adverse effect on the scheduling of sortation labour militate against the objective of same-day delivery. On the other hand, Canada's "all-up" system is unique in world postal administration. This provides that all first class mail up to and including 8 ounces in weight is, without surcharge, forwarded by air if this will speed the service. First class mail over 8 ounces in weight may be qualified as "air-mail" by the payment of additional fees.

Second Class Matter

Second class matter consists of newspapers and other periodicals:

(a) printed and published in Canada and mailed by the publisher in a postal area approved by the Postmaster General;

(b) of Canadian, British and foreign origin and mailed by newsdealers to regular subscribers; or
(c) mailed by the public.

To qualify as second class matter, the major requirement is that the item must be a *bona fide* publication which is issued at least quarterly. Also, it must consist "wholly or in great part of political or other news, or of articles relative thereto, or to other current topics". In practice, the phrase "wholly or in great part" is interpreted as not less than thirty per cent of the printed text. Finally, unless mailed by members of the public, the addressee must be a *bona fide* paid subscriber.

Parliament has fixed various rates for newspapers and periodicals. In the case of a daily with a circulation in excess of 10,000, the rate is $2\frac{1}{2}$ cents per pound for reading matter and 4 cents per pound for advertising. Where the circulation is less, a uniform rate of $2\frac{1}{2}$ cents per pound applies. In the case of weeklies, 3 cents per pound is charged to those with a circulation in excess of 50,000 copies, $2\frac{1}{2}$ cents to those with a 10,000—50,000 circulation, and $1\frac{1}{2}$ cents to those with less than 10,000. Should the weekly be published in a place of less than 10,000 population, the statute authorizes 2,500 copies to be carried free of postage if delivered within a distance of 40 miles of the place of publication. Monthly publications pay either $1\frac{3}{4}$ or $1\frac{1}{2}$ cents per pound, depending on whether circulation is above or below 10,000, and they also have free mailing privileges for 2,500 copies.

There is a significant amount of mail which may appear to be second class matter but, in reality, is not. Items such as unsolicited magazines (used extensively for trade advertising) and magazines published in the United States but mailed in Canada are not second class matter and are subject to special rates. From the service point of view, the Post Office gives priority to matter whose contents have an immediate value. Thus newspapers, special trade papers containing market information, and so forth are treated with almost the same dispatch as first class mail, although transportation is normally limited to surface carriers and air mail is not used. Where the value of the reading matter is less perishable, such as that contained in magazines, no special priority is given and the mail is handled as rapidly as available labour will permit.

Third Class Matter

Third class matter is defined as printed matter (other than second class), manuscripts, duplicated material and miscellaneous articles, including samples. Of this class, the public is most familiar with direct mail advertising, addressed or unaddressed, and greeting cards. Rates are fixed by the Post Office.

Third class material is not given any priority in postal operations. It is always processed subsequent to first class matter and newspapers. In many instances it is used to absorb excess labour periodically available in the post office. Surface transportation is the medium normally used.

Fourth Class Matter

Familiarly known as parcel post, this category includes parcels of any material (except personal messages and contraband), up to and including twenty-five pounds in weight. This service is used extensively by mail order houses because of its relatively low cost and the near-universal coverage provided by the postal system.

This mail receives no special priority but is handled with all reasonable dispatch. Normally surface transportation is used, but an air parcel post service is available at extra cost. Because of the bulky nature of the material, a high proportion of all surface transportation costs is incurred in handling this class.

MONEY ORDERS AND BANKING

The financial operations falling under this heading are of large dimensions. Transfers of money effected through the 50 million money orders issued each year aggregate $800 million. In 1,500 post offices, personal savings accounts may be maintained by members of the public. Balances on deposit earn interest at the rate of $2\frac{1}{2}$ per cent per annum, and sums up to $100 per day may be withdrawn. Deposits exceed $28 million in the aggregate, and current plans call for concentrating in areas where no branches are maintained by the chartered banks. This service was established in 1868 and the law makes no provision for the disposition of dormant accounts. As a result, the $28 million on deposit includes many inactive accounts which have grown in size by accumulating interest credits over the years. In the fiscal year 1960-61, deposits approximated $6.2 million and withdrawals $7.8 million. There are approximately 300,000 accounts, and the average balance is $94.20. A special feature of these savings deposits is that they are exempt from seizure by third parties.

SPECIAL SERVICES

The regular activities of the Post Office include the provision of most of the following additional services in all its branches:

Registration

Registration is available for all first, second and third class mail. It is also available for ballot boxes (4th class). Registration is accomplished by

giving the mailer a receipt for the registered article at the time of mailing and requiring signatures and special post marks each time the article changes hands until it is finally delivered to the addressee, who must give the Post Office a receipt. Registration is not intended as insurance; the maximum indemnity for loss or damage is from $25 to $100 depending on the fee paid. Rather, it is a procedure to assure maximum security while in transit. Over 300 claims were honoured in 1961, at a cost of $4,210.

Special Delivery

Special Delivery is an express service available for letters within Canada, the United States and its possessions and territories. It also applies to parcels, but only in Canada. This service is available only in towns and cities where there is letter-carrier delivery. There are about 250 such centres in Canada.

The words "Special Delivery" accompanied by the proper postage call for the earliest possible extraction of the letter or parcel from the mail stream of the post office at point of origin. It is then given special sortation and forwarded on the first available regular dispatch. At the receiving end, it is given to a letter carrier, placed in the addressee's lock box, or forwarded by special messenger, whichever will ensure earliest delivery.

Insurance

Insurance is available on parcel post, and on second and third class mail if paid at parcel post rates. The maximum indemnity is $100. Free insurance up to $50 is available but only if requested by the mailer. Over 11,800 claims were paid in 1961, at a cost of about $190,000.

Cash on Delivery

Letters or parcels posted at an "Accounting Post Office" in Canada may be dispatched to any point in Canada subject to Cash on Delivery service (maximum $100). In the case of C.O.D. parcel post, the fee covers insurance to the value of the shipment.

Philatelic Service

In recent years, through a special bureau in Ottawa, an increasing volume of Canadian postage stamps have been sold to philatelists in Canada and abroad. Sales in the fiscal year 1961-62 totalled $353,162. Certain special services are rendered, such as the provision of "first day covers", and stocks available for sale include many issues no longer in current use. The service was established mainly to foster good public relations, but the fact that all

stamps, including the high values, are sold at face value renders the operation profitable.

International Mail

The various services described above, with the exceptions noted, apply to international as well as domestic mail. Canada is a member of the Universal Postal Union, which was established nearly eighty years ago to facilitate the smooth flow of international mails and assist in negotiations between countries on such matters as the division of revenues. The Union also serves as a focal point for the exchange of information relating to technical advances in the handling of mail.

SERVICE AND COSTS

The service that a citizen receives from the Post Office depends almost entirely upon the population density of the area in which he lives. The resident in the remote north may receive or dispatch mail only once a year when the supply ship calls. The resident of a sparsely settled area may be required to call at the local post office, often many miles distant, to transact his postal business. More heavily populated rural areas (three families or more per mile of road) are serviced by rural mail carriers at various frequencies depending on mail volume. Residents of villages and towns with less than 2,500 local addresses are required to call at the local post office. Only when a city or town has more than 2,500 local addresses is letter carrier delivery found; mail boxes are strategically located, sub-offices maintained, and so forth. Excluding the "frontier" type of service, which may take any form appropriate to local conditions, there are three basic types of postal service—the local post office, the rural mail carrier, and the letter carrier post office.

The Local Post Office

Located at cross-roads, in hamlets, villages and small towns, these offices are established to provide basic postal service to an area. Normally all services except postal savings are available in these offices. In addition they may serve as centres for one or more rural routes. It is their chief characteristic that the customer must visit the post office to transact any item of business from the mailing of a letter to the collection of his mail.

The Rural Mail Carrier

In many respects the 5,600 rural mail carriers, serving over 600,000 householders, represent the ultimate in postal service. This is the one agent who comes to the customer's door prepared to transact any postal business

or service available at his headquarters office. In addition to delivering mail, he collects it, sells stamps and money orders, registers letters, accepts parcel post, and so on. Although most of his deliveries are made to the familiar "mail box" along the road-side, there has been a tendency in suburban areas to service "group boxes" which, as their name implies, are a group of mail boxes on a single stand. In suburban areas, the group box is often the forerunner of letter carrier delivery.

The Letter Carrier Office

It is in this type of office that postal service is most diversified. Such offices are found in areas where the number of local addresses or "points-of-call" exceeds the 2,500 currently regarded as the minimum required to permit economical use of a letter carrier force. In areas served by this type of post office the mailer finds letter boxes so located that he will generally not have to travel more than two or three blocks to deposit his mail. Mail is delivered once a day in all residential areas. Business addresses receive two or more deliveries daily, depending on volume and past practice. Deliveries are sharply curtailed on Saturdays and none is made on Sundays or holidays.

Where a person must go to the post office, he may visit the main post office, or he may obtain wicket services at sub-offices located for his convenience or from wickets established in letter carrier depots. In short, a real effort is made to render a postal service as convenient as possible commensurate with cost and need. Included in the programme are coin-operated stamp vending machines available twenty-four hours a day.

The Post Office has a long-standing policy that there shall be no coercion of the public. This policy is reflected in the degree of effort by postal employees to deliver the mail in spite of lack of clarity (or carelessness) of address, time of mailing, and so forth. Thus, when people neglect to use postal zone numbers, or even omit street addresses, postal employees succeed in distributing a high proportion of such mail with very little delay. Most major post offices maintain a directory section, whose function is to take incorrectly addressed mail and determine, if possible, from city directories and other sources, the proper address. Only an infinitesimal portion of the mail finds its way into the Undeliverable Mail Office.

Cost-Service Relationships

Service in the handling of the mails depends on three factors: speed, security and cost. Better service is achieved by greater speed, stricter security and lower cost. Optimum service is obtained by achieving proper balance between these three factors.

Speed has varying degrees of importance to different classes of users of the service. The business community has a paramount interest in rapid delivery of its written communications. Equally, the resident of the small community and the publisher have an interest in the rapid delivery of a newspaper. The mail-order house and its customers are interested in the rapid delivery of parcels. These examples have in common the mutual desire of the sender and the receiver for the speedy transfer of an item. In only one class of mail, direct mail advertising, is this not the case; the mailer may have a desire for speed but the potential recipient does not share this interest, and lower priority is therefore given.

It is almost axiomatic that greater speed means greater cost. Speed within a post office requires that adequate staff be available whenever mail is deposited. Although hourly mail volumes can be forecast within acceptable limits, complete accuracy is impossible. Therefore, optimum handling speed is achieved at the expense of a degree of overstaffing, with consequent higher cost. Extra speed between post offices involves choosing the best transportation medium, which may involve the use of special couriers in ground transportation. In general, the greatest speed is achieved by using air transport. From the foregoing, it is possible to draw certain conclusions regarding an acceptable speed-cost relationship.

Inside any post office, best costs are achieved by staffing to process the expected volume of mail. If actual volumes are higher than expected, however, certain mail will be delayed. If any mail must be delayed, then mail of lower priority should be chosen. From this the principle is evolved that all mail should be processed as received, but that third class printed matter should be processed on the basis of staff availability. In transporting the mails, the best cost-speed relationship is obtained by using the ground services of the various common carriers. These move frequently and rapidly enough to provide what is generally regarded as adequate service. Only where a very small units-cost increase results should speed be increased by the use of air transport. The "all-up" system of transporting first class letter mail is based on these cost characteristics.

Another phase of service is security—the protection against loss or depredation. Proper security is achieved when the mailer can deposit mail in a post office with the reasonable certainty that it will be delivered as addressed. The sanctity of Her Majesty's Mail is traditional, and the Post Office Department maintains an unrelenting guard against potential depredators. Some degree of additional security is made available at extra cost by selection of the mode of transportation.

The characteristic of postal service is therefore that of an operation con-

ducted at a "base" level where speed and security are reasonably adequate and costs minimized. Above this base, extra service in the form of added rapidity or greater security can be obtained by the individual customer on the payment of extra fees. Finally, there is the matter of cost to the user of the service. Should charges be based on costs incurred or should they be related to the value of the service to the user? The second alternative violates the basic concept of service, and it is therefore concluded that tolls should be fixed at levels that permit recovery of the total cost of each class of service.

The dimensions of certain operating costs and the current trends therein are shown by the following listing of 1960-61 expenditures and their variation from those of the preceding year:

Parcel post deliveries in cities—cost	$ 5,010,000—up	$ 670,000
Cost of street collection in cities	2,475,000—up	260,000
Cost of rural carriers	9,835,000—up	280,000
Highway services—cost	4,445,000—up	800,000
Payments to railways	16,080,000—down	555,000
Payments to steamships	2,780,000—down	8,000
Payments to air carriers	13,755,000—up	480,000

3

RESULTS OF OPERATION

Charged traditionally with the financial objective of living within its means, or breaking even, the Post Office has achieved its goal with remarkable consistency. The results of its operations for the years 1947 to 1961, as portrayed by government accounting methods in use, are shown in Table 1, together with volume and employment statistics. In this period modest surpluses have been earned ten times and deficits have occurred in five years: the largest surplus represented 6.6 per cent of revenue, the largest deficit 2.2 per cent. The fifteen-year period as a whole shows a net surplus of $53 million from gross revenues of $2,097 million.

As in all departments of government, the operating figures are incomplete and misleading, because of the omission from the accounts of a number of charges that are borne by common service agencies and not passed on to the users. The Post Office figures are more than ordinarily incomplete because substantial charges are omitted and for certain services rendered to other departments, mainly the carriage of mail, no revenues are earned. The principal expenses of the Post Office not reflected in its accounts are the cost of accommodation, 8.8 million square feet of floor space provided by the Department of Public Works and worth about $25 million per annum, and the superannuation costs for its employees, about $15 million, now charged to the Department of Finance. The largest omitted revenue is the value of free postal service, some $6 million, and interest earnings on Post Office moneys arising from money order and postal bank operations (used for the general financial purposes of the government), nearly $2 million.

Table 1—REVENUES AND EXPENDITURES, VOLUME AND EMPLOYMENT FOR THE FIFTEEN YEARS ENDED MARCH 31, 1947-1961

Year	Total Revenue	Total Expenditures	Surplus or Deficit (−)	Mail Volume	Number of Post Offices	Number of Employees
	(thousands of dollars)			(million pieces)		(civil servants)
1947	86,409	77,636	8,773	2,068	12,033	16,212
1948	91,626	81,799	9,827	2,425	11,982	18,289
1949	95,972	92,996	2,976	2,691	11,930	19,439
1950	101,294	99,405	1,889	2,778	12,415	20,275
1951	105,545	106,872	1,327−	3,013	12,390	20,245
1952	122,279	115,630	6,649	2,897	12,305	20,629
1953	129,388	122,917	6,471	2,985	12,259	21,071
1954	129,889	132,364	2,475−	*	12,202	22,357
1955	151,717	144,013	7,704	*	12,138	23,941
1956	158,568	148,293	10,275	3,306	11,996	24,491
1957	167,880	162,049	5,831	3,485	11,879	25,453
1958	177,493	177,893	400−	3,723	11,768	25,919
1959	183,381	183,554	173−	3,802	11,634	26,735
1960	193,660	191,823	1,837	3,983	11,497	27,621
1961	202,004	206,730	4,726−	4,122	11,416	29,930
	2,097,105	2,043,974	53,131			

* Reliable statistics not available.

By way of illustration, the results of the fiscal year 1958-59 (the most recent figures available) are subject to the following adjustments:

	($000)	($000)
Net deficit as shown by Table 1		173
Add: Omitted Expenditures		
Economic rental for premises occupied		23,300
Contributions to Superannuation Fund for Post Office employees		15,400
		38,873
Deduct: Omitted Revenues		
Value of postal services provided free to other government departments and agencies	5,700	
Interest on float—average money on hand from sale of money orders	1,300	
Interest on savings bank deposits	430	7,430
Actual net deficit		31,443

The character of the foregoing adjustments suggests that postal operations have been substantially less profitable than the figures in Table 1 suggest. In a subsequent chapter the costs and revenues of the individual postal services are analysed. The results of this analysis have a bearing on the extent to which the Post Office may properly be considered to have lived within its means.

In other reports your Commissioners recommend that all costs of operation be borne by individual departments and agencies, and that common service departments actually bill the users for the services provided. The adoption of these recommendations will have the effect of bringing into the accounts of the Post Office the principal items of expenditure presently omitted. Similarly, the Post Office will charge departments and agencies for the postal services received by them and the revenues will be increased accordingly.

The interest items require a word of explanation. The normal operation of the money order system results in a continuous "float" approximating $32.5 million, and the savings bank operations produce an average deposit of $28.5 million. Interest at 2½ per cent per annum is paid on the savings deposits, but the continuous use of the money order float incurs no interest cost. Like all receipts of the Post Office, all these moneys, except for some till balances, enter the Consolidated Revenue Fund and thus become available for the general financial purposes of the government. The concept of the Post Office as an individual operating unit requires that all expenditures and revenues arising from its business be reflected in its accounts. It should, accordingly, receive credit for interest on its moneys used elsewhere in the government system, which would increase its revenues by some $1.75 million annually.

We therefore recommend that: The accounts of the Post Office be drawn up to reflect the costs of all services received from and rendered to other departments and agencies of the government.

4

CHARGES FOR POSTAL SERVICE

The operating results of the Post Office, based on present incomplete accounting, were shown in the preceding chapter to represent slightly better than a break-even performance over the past fifteen years. A detailed examination of unit costs and revenues indicates, however, that this result has been attained only because of a surplus from first class mail operations which is large enough to offset substantial losses on other classes of service.

METHODS OF ANALYSIS

Determination of unit costs and revenues presents considerable difficulty. This arises from the mix of different classes of postal matter, common transportation, common handling of all classes and groups of services by single work forces, and other complexities. It is a problem shared by all postal administrations, and over the years certain accepted procedures have evolved which are in general use today. The usual approach is to sample the mails periodically, and to analyse costs and revenues on the basis of the samples selected. The Post Office makes very thorough investigation of samples of two one-week periods every third year. There is evidence that the samples chosen are representative.

In one area, current statistical procedures are responsible for an error of modest proportions. The analysis of international second class costs and revenues depends heavily on the theory of "balance of mails", which assumes that for every item mailed into the country there is an equivalent item

mailed out. This theory fails in the case of periodicals, where the flow is preponderantly from the United States to Canada. Total losses on second class mail include, therefore, a significant cost incurred in handling matter for which there is no compensating revenue. This appears to be of sufficient importance to justify adjustments in future sampling programmes. With this exception, the accuracy of the sample is of a high order; statistically the confidence limits are well above 96 per cent. Much depends on the assumption that the periods chosen for sampling are truly representative, and the support of existing practice with a series of random samplings of much smaller scope would increase the reliability of the cost information developed and might lead to earlier identification of important changes in trends.

RESULTS OF INDIVIDUAL SERVICES

Based on the investigations described above, the Post Office makes a complete allocation of costs and revenues to each of the various classes of mail and service. Table 2 shows the detailed results of the fiscal year 1958-59 based on the test data developed in the preceding year. The operating results, by main groups and classes, are compared in Table 3 with the surpluses and deficits which would have been shown had the omitted revenues (free mail and interest) and expenditures (accommodation and superannuation costs) been brought into account.

The most significant facts emerging from the above table are that first class mail is shown to yield a profit sufficient to carry all the other services and produce an approximate break-even. When the figures are corrected, the true loss of over $31 million closely approximates the loss on second class mail, with other classes and services combined close to a break-even.

Postal rates for first and second class mail, (letters, newspapers and other periodicals), are fixed by Parliament. All other rates and charges are within the discretion of the Postmaster General.

SUBSIDIZATION OF SECOND CLASS MAIL

The re-statement of costs and revenues summarized in Table 3 shows, for the year 1958-59, second class mail revenues amounting to $7.1 million, while costs totalled $36.5 million. The deficit of $29.5 million is thus equivalent to over four times the revenue. Stated in another way, the Post Office, in the rates allowed it by Parliament, recovers less than twenty per cent of its costs of handling second class matter. While first class mail, because of its volume, produces a surplus of similar dimensions in dollars,

Table 2 — POST OFFICE DEPARTMENT — SUMMARY OF RECEIPTS AND DISBURSEMENTS — FISCAL YEAR ENDING MARCH 31ST, 1959 (Using 1958 Test Data)

Class of Mail or Service	*Receipts*	*Disbursements*	*Surplus*	*Deficit*
	$	$	$	$
First Class (Letters)—Ordinary	100,786,129	65,282,336	35,503,793	
Air-mail—domestic	683,851	534,674	149,177	
Air-mail—foreign	7,700,310	8,268,322		568,012
Second Class (news and periodicals)				
Transient	862,019	2,318,957		1,456,938
Publishers	6,189,125	27,879,069		21,689,944
Third Class (printed matter)				
Householders	4,594,709	4,554,819	39,890	
Addressed Circulars	17,931,015	16,424,355	1,506,660	
Other Printed Matter	3,338,754	4,447,186		1,108,432
Fourth Class (Parcel post)				
Domestic	20,860,194	21,611,473		751,279
Foreign	4,675,035	5,393,842		718,807
Air—Domestic	289,695	526,194		236,499
—Foreign	328,108	436,204		108,096
Free Mail		4,620,958		4,620,958
Services				
Registration	3,188,319	7,418,425		4,230,106
Special Delivery	329,386	760,640		431,272
C.O.D.	779,705	1,852,728		1,073,022
Parcel Insurance	36,037	655,165		619,128
Financial				
Money Orders—Notched	3,448,117	3,917,857		469,740
—Denominative	3,944,044	5,024,842		1,080,798
Postal Savings Bank		318,753		318,753
Agency				
Unemployment Ins. Comm.	743,981	869,537		125,556
Government Annuities	71,853	63,274	8,579	
Other				
Philatelic Service	388,238	107,010	281,228	
Lock Box Rentals	1,798,092	59,531	1,738,561	
Rural Mail Boxes	73,736	67,189	6,547	
Miscellaneous	340,074	140,311	199,763	
	183,380,508	183,553,651	39,434,198	39,607,341
TOTAL NET DEFICIT				173,143 (0.1%)

the margin of profit represents no more than twenty-two per cent of the costs. Moreover, if the losses on ancillary services such as registration and special delivery, which have special relevance to first class mail, are taken into account, the degree of profitability must be viewed as considerably lower.

The practice in Canada of carrying newspapers and periodicals for a small fraction of the cost is not unique but is a characteristic of most major postal systems. It dates from the early part of the last century when the general level of literacy improved to a point where mass media had an audience. In response to the public demand for current news, and because newspapers and magazines were the only means of reaching the public on a broad scale, governments adopted a policy of subsidizing the costs of distribution.

Table 3—SUMMARY OF OPERATING RESULTS BY MAIN CLASSES OF MAIL AND SERVICES 1958–1959

	As Shown by Post Office Accounts		*Adjusted to reflect omitted revenues and expenditures*	
Group or Class	*Surplus*	*Deficit*	*Surplus*	*Deficit*
		(thousands of dollars)		
Mail				
First class	35,085		19,460	
Second class		23,147		29,504
Third class	439			4,922
Fourth class		1,815		7,716
Free		4,621	106	
Services (Registration, Special Delivery, C.O.D. and Insurance)		6,353		8,608
Financial				
Money Orders		1,550		2,137
Savings Bank		319	44	
Agency		118		313
Other (Philatelic, Box Rentals, etc.)	2,226		2,147	
TOTAL NET DEFICIT	173,143		31,443,143	

NOTE: Since the year 1958-59, parcel post rates have been increased and changes in rates having broad application to international mail have been made under a new Canada-United States Postal Convention which came into effect on July 1, 1961. The financial results can be assessed only after further experience.

Today, the situation is vastly different. Other media of mass communication have developed and the underwriting of publication costs by advertisers has substantially altered the economics of publishing. Publications have grown enormously in bulk in the past hundred years—the four-page newspaper of the last century appears today with mammoth editions of over one hundred pages—and the costs of the Post Office have necessarily increased very materially. The advertiser, responsible for from forty to seventy per cent of the content of many present-day publications (ninety per cent was noted in one case), has become a beneficiary of the government's policy of subsidizing distribution of second class mail. Conversely, when third class mail is used for direct advertising, the advertiser pays the full cost of the service.

These considerations are a facet of public policy and warrant no conclusions by your Commissioners. But from the point of view of constituting the Post Office as a businesslike operation and assessing its performance in terms of financial results, the imposition of an obligation to subsidize second class mail from its own pocket seems undesirable. Your Commissioners conclude, therefore, that if Parliament continues to require that over three-quarters of the cost of postal distribution of newspapers and periodicals be met from the public purse, a specific grant should be made to cover the deficits.

We therefore recommend that: An annual grant be made by Parliament in amount sufficient to cover the costs of the Post Office in handling second class mail, to the extent that such exceed postal revenues arising from the rates set by Parliament.

5

ORGANIZATION AND MANAGEMENT

As in other departments and agencies subject to the existing central controls, the Post Office operations are found by your Commissioners to be bedevilled by the intrusion of the central agencies into the field of day-to-day management. Recommendations contained in the reports on *Financial Management* and *Personnel Management* are designed to ameliorate this situation. Recommendations made in this report and elsewhere that users be charged for common services will bring the related revenues and expenditures within the ambit of departmental responsibility. These changes, together with the recommended grant in respect of second class mail, set the stage for a viable postal operation designed to render service at cost.

To facilitate the efficient management of this important enterprise and, in particular, to provide a basis for the assessment of its performance, your Commissioners believe that certain steps are necessary. In their view, the essentially operational character of the Post Office requires the adoption of financial procedures better suited to its needs than those ordinarily followed by departments of government. In the report on *Financial Management* it was pointed out that departments should develop accounting systems using the accrual basis and designed to meet their individual management needs, and this recommendation is fully applicable to the Post Office.

The Post Office, which differs from other departments in that it seeks to recover its costs through operations, lends itself to organization on a semi-autonomous basis with independent control of its financial resources. Incorporation as a Crown company has been suggested on occasion and can be supported on logical grounds, but your Commissioners do not consider this

the only or even the appropriate solution. The universality of the service and traditional public interest militate against depriving the Post Office of its constitution as a department of government. But there is no reason why the Post Office, as a continuing department, cannot operate in substantially the same manner, with similar financial practices, as a utility in the private sector. This is, in fact, the character of Post Office operations in the United Kingdom.

To bring this about, the principal changes required are of a financial nature. At present, all receipts are deposited with the Receiver General and expenses are paid from Parliamentary appropriations. By this means the moneys of the public entrusted to the Post Office on money order and banking transactions, as well as nearly all postal revenues, flow through the Consolidated Revenue Fund. The Estimates reviewed by Parliament now include about $200 million to cover the disbursements of the department. The payment of all expenses out of revenues would be more appropriate, so that Parliament would be asked to vote only the amount of any deficit. This change would facilitate accounting and reporting procedures, permit closer management control, and more suitably reflect the operational independence of the Department. This can be accomplished by establishing a revolving fund sufficient to provide for working capital requirements, with interest on the fund charged against operations.

A second step required is to bring into account the capital assets, buildings and equipment used by the department, and to provide that operating costs include provision for the systematic amortization of their cost. This will necessitate a determination of the present value of these assets, which were written off as acquired, and acknowledgement by the Post Office of indebtedness to the government for this sum, upon which it would pay interest. While in the case of equipment no alternative exists, the buildings and premises of the Post Office could continue to be carried on the books of the Department of Public Works but rental charges to the Post Office should include all current operating costs, as well as depreciation on the buildings and interest on the capital employed.

As a result, postal operations would be charged with all the real elements of cost, and management would have the task of achieving the desired balance between postal revenues and expenditures. A statement of the position of the Post Office could be prepared periodically which would show all aspects of financial relationships with the government, closely resembling the balance sheet of a private enterprise.

Under the plan proposed, there would be a change in form but not of substance in the annual review of operations by the Treasury Board and the

Cabinet. Instead of preparing estimates on the basis of anticipated expenditures, the Post Office would submit to the Treasury Board an operating budget, including both revenues and expenditures, which would be subject to programme review similar to that applied to the programmes of other departments. In order to subject Post Office operations to annual review by Parliament, the Estimates should contain a token vote to permit questioning by members of the House of Commons. In addition, any necessary increase in the revolving fund or appropriations to meet deficits would require specific Parliamentary approval.

The proposed creation of an independent operating form raises the question of the proper relationships of the Post Office to the common service agencies of the government. While the latter must have reasonable powers of delegation, your Commissioners are in no doubt that they should be charged with responsibility for meeting the needs of the Post Office, as of other departments. The principal agencies involved will be those responsible for central purchasing and for real property management.

In the report on *Real Property* your Commissioners recommend that the Department of Public Works be given the sole duty of undertaking the management function in respect of all real property required by civil departments and agencies. The principle was there enunciated that the determination of need was primarily the responsibility of the user department and that, following senior approval and appropriation of funds, the task of the central agency was to acquire and manage the facilities required.

It should be observed in passing that in providing postal facilities the planning aspects of real property acquisition have been notably unsatisfactory. The tendency has been to make too little provision for future growth. For example, the post offices at Kitchener and London, Ontario, are currently being replaced after only twenty years' service. The Calgary post office opened last year is barely adequate for present requirements. The responsibility for this situation must, under existing conditions, be shared with the Post Office by the Department of Public Works and the Treasury Board, but the recommendations of your Commissioners would place the entire responsibility for long-term planning upon the Post Office itself.

We therefore recommend that: 1 All receipts and disbursements of the Post Office be handled through a revolving fund corresponding in amount to the working capital requirements of the Department.

2 The Post Office be charged with an advance equivalent to the present value of its capital equipment and all additions thereto be charged as they are incurred.

3 Similar procedures be followed with respect to the present value of Post Office buildings and premises or, alternatively, amortization of capital costs and interest on capital invested be included in charges by the Department of Public Works to the Post Office for the occupancy thereof.

4 The Post Office pay interest on the revolving fund and on the balance of the advance account at rates to be fixed by the Department of Finance.

5 The annual operating budget of the Post Office be submitted to the Treasury Board for approval and reviewed with the Estimates of other departments and a token Vote be included in the Main Estimates in respect of operations of the Post Office.

6 A system of financial reporting be adopted by the Post Office that will meet the current needs of management and demonstrate appropriately the results of operations and the financial relationship of the Post Office to the government.

Part 2 of this report which follows contains more detailed observations on certain aspects of postal operation, including the internal organization of the Department.

PART 2

1

THE POSTAL OPERATION

1 The process of collecting, sorting, transporting and delivering mail carries on every minute, every day, throughout the year. In a never-ending stream, letters are dropped through letter slots, collected, sorted, directed, transported, resorted and redirected, and finally delivered to their destination. This process is described in detail below.

Collection

2 Mail may be deposited in a post office, a street letter box or the mail box serviced by a Rural Mail Carrier. Street letter boxes are cleared at scheduled times by private contractors who carry the mail to the appropriate post office for further processing. Similarly, the Rural Mail Carrier will deposit collected mail in his post office. Meanwhile, mail order houses are posting parcels, advertisers third class matter, publishers second class matter, all literally by the truckload. Although each class of mail is handled slightly differently, the general procedure is the same.

Forward Sortation

3 Letters, as received in a post office, are sent directly to the Forward Sortation area. Here, on large tables, they are "faced up"—oriented face up with all stamps in the upper right hand corner. This orientation is maintained throughout the ensuing handling. During this process, letters for Special Delivery, Special Air Mail, and so forth, are separated. As letters are faced, they are fed through cancelling machines which postmark each letter as to date and office of origin and deface the stamps. They are then ready for primary sortation, which is the first separation or reduction.

4 Primary sortation generally takes place in a 49-pigeonhole case. The pigeonholes are labelled, for example, "Montreal", "Ontario West", "City". The pigeonhole labelled "Montreal" will gather all mail destined for that city (including 40 other designations for Montreal, such as Westmount, used by the

public). The pigeonhole "City" will collect local mail. The pigeonhole "Ontario West" will gather mail for a great many post offices in a region of Ontario. These will be further sorted in a secondary operation. Each letter sorted in the primary case could be directed to any one of over 11,000 post offices. The primary sorter must know how to sort this mail at the rate of 39 letters a minute.

5 The products of primary sortation are twofold. First is the "Straight" which is a letter separated directly for final destination. Second is that destined for further sortation either locally or at some other post office. Secondary sortation is carried on in a similar manner but for a smaller area. Thus, "Ontario West" mail will be sorted to various destinations in that district. It is obvious that "Straights" in the primary case represent sortation economy. By judicious use of this principle, the Post Office is able to maintain a ratio of 1.4 to 1.6 sorts per letter for all forward sortation. As mail is sorted into pigeonholes, it is periodically being gathered and tied into bundles ("tied off") ready for dispatch.

Transportation

6 "Tie-offs" are continually going out on various transportation dispatches. These are carefully organized to take advantage of every regular carrier that moves. Thus, mail for Brandon may go via Winnipeg at noon or by way of Regina a few hours later, because of carriers' schedules. Transport networks are extremely complicated.

City Sortation

7 As sorted mail is received in a city post office for local delivery, it is subjected to a process called city sortation. The first step is again a primary sortation. This time the mail must be separated by postal zone (whether included in the address or not) and also by "straights". This time "straights" are addresses which receive large volumes of mail (such as mail order houses, insurance companies and the like). Postal zone mail is sorted in a secondary case to the letter carrier's walk.

8 City sortation requires very extensive knowledge for its successful completion. For example, in Toronto there are about 3,000 street names, some distinguished only by the designation "St.", "Ave.", or "Rd." Some of the streets run through several postal zones,so the city sorter must know the street number at which the zone "breaks". Additionally, a significant amount of mail is addressed to firms without the appropriate street address, or a "corner" designation, may be substituted e.g., "corner of King and Yonge". It is estimated that a primary sorter must know upwards of 5,000 "points of information" to sort the Toronto City primary case. Nonetheless the sortation rate is again approximately 39 letters per minute. Another method of city sortation, called the ABC method, requires a minimum of specialized knowledge because it involves merely an alphabetic distribution by street name. This system is used by temporary help for forward sortation to handle Christmas mails.

Letter Carrier Delivery

9 As mail is sorted to the letter carrier's walk, it is given a final sortation by the letter carrier, who merely arranges the letters in order of delivery. When sortation is complete delivery is made. Letter carrier walks may be all residential, mixed residential and business, or all business. Some walks are contained entirely within one building; indeed at least one large office building contains two complete postal walks. For certain types of suburban delivery, the Post Office has recently concluded successful experiments with "mailmobiles". These are lightweight vehicles which eliminate much of the walking and at the same time permit the letter carrier to deliver some parcel post.

2

INTERNAL ORGANIZATION

PRESENT ORGANIZATION

1 The existing organization is the result of a partial implementation of recommendations made in 1952 by a firm of management consultants with certain evolutionary changes. It is presented diagrammatically in Chart 1. Functionally, the organization is described below.

Headquarters

2 The departmental organization is headed by the Deputy Postmaster General, who reports directly to the Postmaster General.

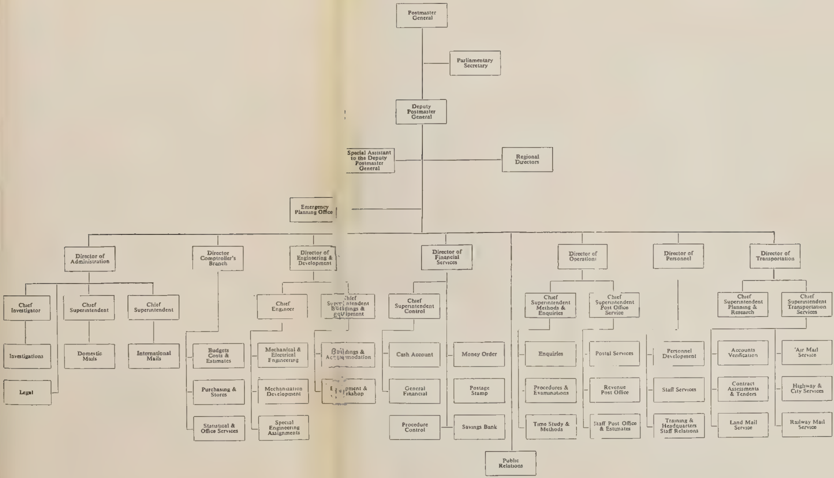
3 The Deputy's staff includes a special assistant, an emergency planning officer, a public relations division, and seven major branches with the following duties:

ADMINISTRATION—Preparation and interpretation of domestic and international postal laws and regulations; negotiation of international postal rates and international transportation contracts; disposal of undelivered mail; and investigations and legal matters.

COMPTROLLER—Co-ordination of branch estimates into Departmental over-all estimates; establishment and maintenance of a budget system for certain post offices; establishment and maintenance of cost ascertainment and work measurement systems; establishment and maintenance of payroll audits; direction and control of the purchasing and stores function; and centralized office services.

ENGINEERING AND DEVELOPMENT—Provision of buildings and equipment; systems studies and installation of new and modified mechanical mail handling devices, including the control of maintenance on such installations; research, development and design of electronic mail processing equipment and standard post office equipment.

FINANCIAL—Establishment and maintenance of accounting and auditing procedures in connection with receipts and disbursements from revenue; operating savings bank and money order systems; design, purchase and control of postage stamps and other values; and provisions of electronic and automatic data processing services.


Postmaster General
Parliamentary Secretary
Deputy Postmaster General
Special Assistant to the Deputy Postmaster General
Regional Directors
Emergency Planning Office
Director of Administration
Director Comptroller's Branch
Director of Engineering & Development
Director of Financial Services
Director of Operations
Director of Personnel
Director of Transportation
Chief Investigator
Chief Superintendent
Chief Superintendent
Investigations
Legal
Domestic Mails
International Mails
Budgets Costs & Estimates
Purchasing & Stores
Statistical & Office Services
Chief Engineer
Chief Superintendent Buildings & Equipment
Mechanical & Electrical Engineering
Mechanization Development
Special Engineering Assignments
Buildings & Accommodation
Chief Superintendent Control
Cash Account
General Financial
Procedure Control
Money Order
Postage Stamp
Savings Bank
Public Relations
Chief Superintendent Methods & Enquiries
Chief Superintendent Post Office Service
Enquiries
Procedures & Examinations
Time Study & Methods
Postal Services
Revenue Post Office
Staff Post Office & Estimates
Personnel Development
Staff Services
Training & Headquarters Staff Relations
Chief Superintendent Planning & Research
Chief Superintendent Transportation Services
Accounts Verification
Contract Assessments & Tenders
Land Mail Service
Air Mail Service
Highway & City Services
Railway Mail Service

OPERATIONS—Establishment and maintenance of post offices, including staffing; establishment and maintenance of enquiries procedures; development of mail handling work standards and improvement of mail processing methods; and the conduct of a staff examinations system.

PERSONNEL—Formulation of personnel policy for Headquarters and Staff Post Office employees; formulation and operation of personnel development and safety programmes.

TRANSPORTATION—Negotiation of contracts for the conveyance of domestic mails.

The Field Organization

4 The field organization is charged with the provision of the daily postal service and is scattered across Canada. For this purpose Canada is divided into fourteen postal districts, each headed by a District Director. Each District Director, reporting directly to the Deputy, is responsible for the operation of all post offices and mail services in his district. Responsibility is delegated to Area Superintendents for the complete operations in a segment of each district. In addition, the District Director has a small staff to deal with operations, transportation, administration, personnel and public relations on a local level, along the same general lines as their Headquarters counterparts.

5 Several Headquarters functions are performed in the field by personnel reporting directly to Ottawa. Thus there are four Regional Directors, each of whom represents the Deputy Postmaster General in a particular region. All time-study men, no matter where resident, report directly to Headquarters. Similarly, certain transportation officers (designated Transportation Research Officers) are actually field representatives of Headquarters.

6 In addition to the fourteen postal districts, four District Post Offices have been designated. They are Montreal, Toronto, Winnipeg and Vancouver, the largest post offices in the country. The Postmaster of each reports directly to the Deputy and, like the District Directors, maintains certain supporting staff functions.

ORGANIZATIONAL WEAKNESSES

7 Preliminary investigation of the existing organization suggested several important points of criticism. These stemmed from three sources: the lack of clear functional definition, the lack of authority commensurate with delegated or implied responsibility, and unwieldy spans of control in several supervisory positions.

8 As an example of lack of functional definition, there is no real separation of the planning function from the performance function. Each Headquarters branch is required to perform in its own area and also to formulate its future plans. This places the Deputy in the position of having to co-ordinate not only the performance but also the planning efforts of the organization. In an enterprise of the size and scope of the Post Office, this task is beyond the capabilities of any senior executive. The result has been that performance co-ordination has largely gone by the board because of the heavy (and more important) planning load.

9 Since each branch enjoys equal authority in its own sphere, the result has been performance management of the field organization by committee. Additionally, the branches are so compartmentalized that, unless complete unanimity exists in every instance, decision-making may be seriously delayed.

10 The field organization has felt this defect keenly. For example, a new mail service might conceivably involve separate approaches to Operations, Personnel, Transportation and the Comptroller. Except in clear-cut issues,

decisions may be inordinately delayed and are generally made only after voluminous interchanges of correspondence between the units involved.

11 The functions of the Regional Directors are not clearly defined. In the absence of direction, each of these four officers has established his position in accordance with his own concepts and in response to local conditions. There is uncertainty in everyone's mind as to the duties and responsibilities of these positions.

12 The position of Area Superintendent deserves comment. On average a superintendent is responsible for 175 offices. He is required to inspect each office to ensure adequate postal operation, to make periodic cash audits, to search for ways of improving the service and so forth. As cash audits alone take from sixty per cent to seventy-five per cent of the superintendent's time, many of his other duties receive scant attention. Many small local problems are thus left unsolved.

13 The field organizations of the metropolitan districts of Montreal and Toronto present certain problems. In each district the central post office is responsible for the operation of all perimeter (suburban) offices. However, during the last decade populations and mail volumes have increased very rapidly in these centres, and the perimeter offices have grown until they are now larger and more important than many self-contained offices in towns and small cities. Supervision by a central city post office is no longer practicable.

14 Throughout the entire field organization there is evidence that only limited authority has been delegated from Headquarters. District Directors, for example, must obtain permission from various Headquarters branches for such matters as the inauguration, extension or curtailment of service, disciplinary action, and so forth, which delays field implementation. Consequently Headquarters branches have retained large staffs to process the myriad requests and directives that result from centralized authority. This preoccupation with operational matters renders branches ineffective in discharging the primary responsibility to establish criteria and develop policy and regulations.

15 The foregoing examples of organizational faults are merely illustrative and they are not intended as an exhaustive portrayal.

16 Organizational faults do not prevent an enterprise from attaining its major objectives. Rather, they result in other less obvious deficiencies. For instance, excessive costs are generated by imperfect delegation, due to the great amount of communication that must take place between the area of operation and the area of authority. Certainly poor organization will prevent many desirable secondary objectives being attained, if only for the reason that no one in particular has been charged with their attainment. Also, poor organization impedes the development of employees for more important posts. How can an aspiring employee prepare himself for a more senior position if its exact duties and responsibilities are unclear? Finally, in an unsatisfactory organization, so much executive energy is consumed on inconsequential matters that the performance of normal routine becomes a difficult and time-consuming task.

17 Fortunately, counterbalancing the organizational faults, the Post Office staff is conscientious, hard-working and dedicated, and morale is very high. This has enabled the service to function in a highly commendable manner. Nonetheless, at this critical time, when retirements and volume increases are creating an urgent need for managerial talent, energy and dedication may not in themselves be sufficient.

REORGANIZATION EFFORTS

18 The organizational difficulties of the Post Office were recognized in June 1961, when the retirement of several key postal officers was imminent. It was therefore decided that the organization be studied immediately and that, because of the nature and extent of the problem, a mere repair of the existing organization would not be sufficient. Accordingly the Deputy Postmaster General established a Joint Organization Study Group comprising representatives of the Royal Commission on Government Organization, the Civil Service Commission and the Post Office Department to develop a completely new plan oriented specifically to the needs of the Department.

19 The terms of reference to the Joint Study Group were:

> To review the organization of the Post Office Department and recommend any changes that would improve that department's ability to achieve its objectives.

20 The Study Group elected to divide the programme into three parts:

Part 1—Organization

Part 2—Detailed organization at headquarters

Part 3—Detailed organization in the field.

21 It was further agreed that representatives of your Commissioners would participate only in Part 1 of the programme, and that Part 2 and Part 3 would be conducted by the Civil Service Commission and the Post Office Department.

22 Part 1 of the programme was completed by mid-November 1961. Reports were presented to, and accepted by, the Postmaster General and are now in process of implementation. The estimate is that, when this plan is fully implemented and working, there will be a reduction of some $1.6 million in annual operating costs.

23 The new organization has been designed to achieve the following more important objectives:

- Consolidation of allied and complementary functions into specific areas.
- Clear differentiation between line and staff relationships.
- Provision of necessary functions.
- A realistic span of control for each executive.
- Delegation of the proper degree of authority commensurate with responsibility.
- An organization in which managers can grow and develop.
- A proper and clearly understood chain of command in every function.

24 It is suggested that these objectives, when achieved, will result in more efficient use of managerial talent and reduced operating costs, and, most importantly, will provide a framework within which future changes can be made, as the need arises, logically and with a minimum of disruption.

3

ADDITIONAL SERVICES REQUIRED

1 The addition of four functions to the Post Office organization would be of material benefit in the continued quest for reduced costs and improved service. Specifically these are: a Statistical Information Service, a Postal Rate Planning function, a drastic expansion of Time Study activities and Operational Research.

STATISTICAL INFORMATION SERVICE

2 The Post Office collects many items of statistical information. This is done, generally, for specific purposes, and no further use is made of the information when it has served its special purpose. A great deal of information is accumulated at individual post offices with regard to the distribution of mail originating in that office, but these data are not centrally assembled and the general characteristics of mail-flow cannot be readily studied.

3 No forecasts are made of metropolitan or national growth trends, and patterns and plans cannot be made until these emerge. Too often such plans are made with undue haste and have to be revised. In Metropolitan Toronto, certain postal zones have been changed three times in less than five years.

4 There is, therefore, a need for a central statistical bureau within the postal organization to collect and analyze operating data. Specifically, more mail-flow information is needed. Knowledge of volume by type, point of origin, point of destination, and so forth, would be of real help in solving some of the mail system problems which presently exist. Equally, the Post Office requires better information than it has at present on population trends. This knowledge will facilitate the anticipation of service requirements and will allow an improved job of planning. The assistance of the Dominion Bureau of Statistics should be enlisted in developing this activity, and specially trained personnel will be required for its management.

POSTAL RATE PLANNING

5 The Post Office has the right to establish the rates to be charged for third class mail (printed matter) and fourth class mail (parcel post). It also has the right to enter into inter-

national agreements with regard to the rates charged for all classes of mail. As the costs of postal service have risen, it has been found necessary, from time to time, to adjust rates, so that revenues will remain commensurate with the costs. Normally, adjustments have been made to achieve direct objectives, and too little attention may have been paid to the indirect implications.

6 Indirect results flow from the interrelationship that exists between certain classes of service and the rates charged. For example, parcel post (fourth class mail) is the standard service, provided at what might be termed the "base" price. Extra service (faster service) is provided by air parcel post at a higher rate. If parcel post rates are raised and approach those charged for air parcel post, there will be a diversion of volume from regular to air parcel post. Similar problems are encountered when domestic and international mail services overlap. United States publishers are encouraged to mail in Canada by a device known as the "mail-in-Canada" rate for newspapers and periodicals. If this rate is too high, the publisher may mail in the United States and Canada receives no revenue; alternatively, the material may be deposited with newsdealers in Canada, who enjoy special rate privileges under second class mail provisions.

7 The foregoing are examples of what has occasionally happened in the past when rates were revised. The problem stems from two sources. In the past, international rates have been handled separately from domestic rates, and rate adjustments have been made without consideration of possible indirect effects. The subject of rate levels is one which, because of its sensitivity, requires continuous and careful scrutiny. This function should be carried out in the proposed Postal Rate Planning section and would round out the ability of the Post Office to consider future plans and the effect of proposed rate changes on those plans.

TIME STUDY

8 The Post Office has had a Time Study programme since 1953, which has been used to establish proper work quotas for certain operations in some of the major post offices. At the present time, a staff of 27 men are engaged in this work. To date, their efforts have resulted in the installation of programmes in the 18 largest offices in Canada. Attention has been directed primarily to the handling of first and third class mail, with less attention to the second and fourth classes. Some 8,000 people now work to the standards established, and savings conservatively estimated at over $2 million annually were realized in the fiscal year 1959–60. The standards in use have been audited and found to be well within 5% of the output range that would be required by industry, which speaks well for the quality of work done to date. The supervisory staff, generally, have supported such programmes and have learned to appreciate the advantages to be gained.

9 There is, however, a large amount of work yet to be done. In addition to present coverage, the programme could be extended to second and fourth class mail. Apart from the eighteen post offices already covered, the programme could be advantageously installed in every office down to and including Grade 13. Similar programmes could be designed for mail handlers and letter carriers in all offices.

10 The over-all effect of such extensions would be to bring a further 12,000 employees into the programme; a very conservative estimate of the resultant savings is $7.5 million a year. To achieve these savings, an enlarged time-study staff and improved training are required. The present establishment is barely sufficient to maintain the current programme, and without further time-study training personnel are ill-equipped to meet the technical challenges of an extended programme.

11 At present, a staff of 27 time-study men maintain coverage on some 8,000 employees —a ratio of about 300 employees per time-study man. The same ratio applied to a further 12,000 employees indicates the need of an additional 40 time-study men, and 8 men would be required as trainees and supervisors, raising the establishment to 75.

12 All the time-study men depend today on a predetermined time-standard system to measure work. This is a sound and well-accepted method which is adequate to measure the work in the present programme. However, as the programme is extended, the staff will find great need for other industrial engineering techniques. These could well include:

- Stop-watch time study.
- Work sampling.
- Methods engineering.
- Certain operational research techniques.
- Elementary statistical mathematics.

13 Additional training in these subjects would enable present staff to meet the challenges that they will undoubtedly encounter in the new areas of investigation.

14 At present, all training is undertaken personally by the Superintendent-Time Study. With an augmented staff, the development of one or two people as instructors would be justified. Many large industries have adopted this approach, with outstanding success in terms both of cost and quality of training.

15 The Post Office now recruits all time-study men from the ranks, and their training and experience are usually gained only in the department. Although this policy has been reasonably successful, a programme of more general development would be beneficial. Memberships in industrial engineering and management societies would be extremely advantageous, as well as subscriptions to relevant technical publications. Certain individuals should be afforded the opportunity to attend seminars in their general field of interest from time to time. Experience in industry has amply demonstrated the value of programmes for manpower development.

OPERATIONAL RESEARCH

16 The Post Office has many problems that can be solved by the use of operational research techniques. This fact was established by a series of tests designed to show whether these techniques could be effective in specific areas.

17 Operational research involves the application of scientific method to the solution of operational problems in complex organizations. The objective is to provide quantitative bases to guide executive decisions towards improved operations. The problems are those of management, and the approach to their solution is related to the over-all objectives of the organization rather than to the objectives of one particular part. The test areas and results are described briefly hereunder.

The Cost-Service Relationship at Wickets

18 Wicket service is given in post offices for the sale of stamps and money orders, the registration of material, acceptance of parcel post, and similar functions. The number of wicket attendants required depends upon the intensity of demand by the public for these services. Obviously, a large number of attendants will provide a standard of service where the customer will very seldom have to wait. Conversely, a small number of attendants will adversely affect the time the customer will have to wait. Thus, high cost is associated with good service; low cost with poor service. While operational research techniques cannot establish either the proper service level or the proper cost level, both can

be related mathematically as an aid to management in finding the optimum compromise.

19 The technique of "queuing theory" was used in one of the major post offices to investigate this problem. A relationship between cost and customer waiting-time was obtained by establishing, as an arbitrary standard, that the level of service was adequate when the waiting-time did not exceed two minutes each of ninety per cent of the customers. On this assumption, it was found that wicket staffs could be reduced by roughly half. If the wickets studied are indicative of service generally throughout the system, and casual observation indicates that they are, potential savings are in the order of $2.8 million a year.

Forecasting Mail Volumes

20 The volume of mail deposited in any post office varies from day to day, and from hour to hour throughout any given day. If good service is to be maintained, staff must be available to process all mail almost as it is received but overstaffing results in excess cost. If staffing be related to mail volumes forecast within reasonable limits, adequate service can be maintained at minimum cost. Forecasts based on statistical analyses of mail volumes at one of the major post offices were made and the results tested. The study showed that sufficient accuracy could be attained to justify using the forecast as a basis for determining labour requirements.

Marginal Analysis of Cost-Service Relationships in Sortation

21 Marginal analysis may be described as a technique whereby a system is analyzed mathematically in a series of steps. Each step involves the theoretical addition (or deduction) of a fixed increment of cost and the ascertainment of the resultant change in the level of service. In this study, the measure of service was expressed in terms of "day-late letters" or letters which might be delayed one day. By combining the marginal analysis results with those of mail volume forecasts, it was determined that service could be slightly improved and costs significantly reduced. The test indicated that an extension of this analysis, coupled with mail volume forecasts, would yield annual savings of $4.8 million.

Marginal Analysis Evaluation of Highway Transportation Services

22 Marginal analysis studies of several truck routes were conducted to determine the relationship of cost and service. Again the "day-late letter" was used as the measure of service. Unfortunately, the value of marginal analysis is limited by the great complexity of the present system. It would seem advisable to redesign the highway routes and simultaneously to evaluate the possibility of replacing certain rail services with highway trucks where true cost-savings will result. Preliminary estimates indicate that a comprehensive study of this nature would yield savings of $1.2 million annually.

23 Based on the foregoing tests, which indicate potential annual savings of $8.8 million in the areas investigated, there is no doubt that operational research would be of the greatest help to the management of the Post Office. This function should be added to the engineering division, with a senior operational-research analyst attached to the Headquarters group. Training certain field personnel of the Methods and Standards group in selected techniques of operational research would be necessary.

4

SEVERAL OPERATIONAL PROBLEMS

CLASSIFICATION OF POSTAL MATTER

1 The postal regulations are published in a 456-page book entitled "The Postal Guide". Although a great part of this volume deals with rates of postage, there is also a large portion devoted to rules and regulations covering the classification of the mails. It will be evident that strict classification is necessary due to the price differentials between the various classes. For instance, 200 pieces of mail, each weighing eight ounces, can be sent as second class mail for two dollars; as third class mail, the charge would be ten dollars, an increase of 400 per cent.

2 All classification is based on the content of the mail matter. Thus a personal message is classified as a first class letter. Similarly, any matter published under specified conditions, containing 30 per cent or more "news and information" and addressed to a bona fide subscriber, is second class. Printed matter is third class, and so forth. Certainly first class mail must be classified by content and, under the present rate structure, second class mail must be classified in the same way. Unfortunately, the great preoccupation with content has meant that very little thought has been given to the physical handling properties of the item which have a profound influence on the operating costs of the service.

3 Both mailers and postal officials are frequently in a quandary as to how certain material should be classified. A page in a magazine may simply be advertising if printed on paper. The same message printed on aluminum foil may be classified as a sample subject to third class rates (if the advertiser is in the aluminum foil business), or as an advertisement if the foil has been used for its eye-catching qualities only. A cake of soap may be a parcel (fourth class) or a sample (third class), depending on packaging and the purpose of the shipment. These are but two examples of the many problems encountered in mail classification. Simplification is needed. It would be of value to many large mailers and would resolve some very trying administrative problems.

4 The approach to greater simplification

lies in classifying mail, wherever possible, on the basis of the cost of handling. Thus, the aluminum page in the magazine will remain unnoticed as long as the magazine can be handled in a normal manner. Similarly, the cake of soap will always be parcel post. In general, the measure of relief to mailers and authorities will be large, the adverse effect on postal revenues small.

5 Further, it would be advantageous to create a sub-class of parcel post. The non-addressed or "householder" classification, presently only third class, should also be available in the fourth. This would permit a complete distinction between printed matter and samples, and would greatly simplify the application of correct rates.

FORWARD SORTATION

6 The Post Office presents a unique statistical anomaly. Of the 11,416 post offices in Canada, a mere 80 originate eighty per cent of the total mail handled and employ some eighty per cent of postal employees. It is suggested that complete recognition of these facts could lead to certain highly significant advances in postal operations, particularly in the areas of sortation and transportation.

7 Forward sortation is the process whereby mail deposited in a post office is separated for forwarding to the office of address. It is normally carried out in two stages—primary and final.

8 Primary sortation is carried out in a "case" or series of pigeonholes. Each pigeonhole is labelled either for an office of destination (a "straight") or for another "case" where final sortation will take place. In actual operation a primary "case" normally has 49 pigeonholes. The sorter who handles the "case" must know how to distribute anywhere from 1,000 to 5,000 different addresses into these pigeonholes. This requires a high degree of knowledge which is difficult to acquire. The learning time on one "case" is generally upwards of 12 months to attain an expected rate of 39 letters per minute. While it is not unusual to find clerks who can process two or three "cases", it will be appreciated that the training is expensive, and that the trained postal clerk is relatively inflexible in his sortation capabilities.

9 "Straights" require no knowledge. However, every pigeonhole that feeds a final "case" requires a great deal of knowledge. Although all primary "cases" are uniform in a post office, there are many different "finals". There will be, as a minimum, one final "case" for every province of Canada, and within every major post office there must be a knowledge of every post office in Canada.

10 Recognition of the principle of the "80 major post offices" could well eliminate the need for much of this knowledge. It is suggested that the following procedure be given serious consideration:

- Replace the 49-pigeonhole case with an 80-winged case.
- Divide the case as follows:

  55 pigeonholes for the most strategic selection from the 80 major offices;

  5 pigeonholes for various classes of foreign mail;

  10 pigeonholes for important nearby offices;

  10 pigeonholes for the 10 provinces.

  (This case could be sorted with no geographic knowledge whatsoever. Learning time could thus be reduced to two weeks. It is estimated that up to eighty per cent of the mail could be sorted to its final destination in this manner.)
- Mail from the 5 foreign pigeonholes and the home province of the office could proceed to final sortation.
- The mail in the remaining nine "province" pigeonholes would be bulked direct to the nearest office in that province.

11 These steps would eliminate the need for geographic knowledge except for the "home" province.

12 The over-all advantages of the proposal are as follows:

- A great proportion of the mail could be sorted by relatively untrained personnel. This would lead to a more flexible staff and lowered training costs. In addition, this type of sortation is normally carried out with higher efficiency.
- There will be a saving of floor space when final cases for other provinces are no longer required.
- "De-skilling" of the operation may permit the employment of a larger proportion of operators in the lower paid categories.

TRANSPORTATION

13 Two areas in this phase of the postal operation require some special comment. They are highway transport services and the contracting procedures for city transportation.

Highway Transport

14 Examination of several of the present truck transport systems discloses a degree of overlapping and, in some cases, redundancy. The reasons are two-fold. First, there is the extreme complication of establishing a network to meet pick-up and delivery requirements commensurate with good service. This may be illustrated by the fact that to interlink only 15 points in a system there are, mathematically, over 1,300 billion (1,300,000,000,000) ways of doing so. Second, during the past two or three years there has been a fairly rapid curtailment of branch line railroad passenger service which was formerly used to carry mail. This has necessitated the selection of other means of transport.

15 In the solution of this problem, adherence to certain principles can lead to reduced transport cost without loss of service. These general principles, applicable to the entire transportation network, are as follows:

- There is only one important daily dispatch from one post office to another. This dispatch will take place as late as possible, but still in time to ensure next day delivery at the post office of destination.
- Any dispatches other than this are auxiliary and have no value save to reduce possible excess volumes.
- No dispatch should be considered which will not improve the speed of service.

16 At present an appreciable number of dispatches are made merely because transport is available. As an example, the Montreal post office meets a dispatch time of mid-afternoon to use a carrier destined non-stop to Halifax. An early evening dispatch catches a later plane for the same destination. As the earlier dispatch arrives too late for evening processing, both dispatches are processed together. Thus the earlier dispatch contributes nothing to the speed of the service but merely doubles the number of "tie-offs" required; it adds appreciably to bulk handling costs, paperwork costs, and so forth.

17 The foregoing principles should be applied with proper regard for the anomaly of the eighty most important post offices. Using first class mail as an example, the primary objective would be to establish a major network connecting these offices. The objective of this network should be to achieve next day delivery between every pair of points. Distances and time differentials will make this difficult, but the objective should be a constant target. The next objective should be to link the remaining staff offices by equally adequate direct transport. It is important to recognize that the two networks suggested above should not be jeopardized by sidetracking them to improve service to smaller

communities. Rather, these should be serviced by the equivalent of short "side services" as required. Auxiliary dispatches should only be added after appraisal by means of marginal analysis methods previously described, in order to ensure a reasonable balance between service and cost.

City Services

18 City transportation services are required to make collections from street letter boxes, deliver parcel post, distribute letter carrier bundles, shuttle mail between central and perimeter post offices, and so forth. These services are generally contracted out, and investigation has shown serious differences in prices paid contractors in different centres. Parcel post delivery rates vary from 8 to 14½ cents per unit. Hourly rates for trucks on shuttle service vary from \$2.20 to \$4.20 for similar vehicles. The handling charges for special delivery items run from 19 cents to 33 cents in different cities. These variations are greater than can be explained by operating conditions in the different centres.

19 The principal reason for these disparities appears to lie, not in climatic and operating differences, but in the contracting procedures of the Post Office. Present contracting procedures often fail to reap the benefits available from active competition. Although original contracts are let on a tender basis for a period of four years, these contracts may, under the *Postal Act*, be renewed for further periods of four years at a time, providing the contractor has given satisfactory service, at prices renegotiated to take care of increased costs. Moreover, there has also been a strong tendency for the scale of contracts to grow as service needs have increased. Some contractors presently employ upwards of 100 vehicles on a regular basis, and have therefore made a sizeable capital investment. This fact, coupled with satisfactory performance, has led the Post Office to renegotiate renewal contracts instead of calling for fresh bids.

20 The cumulative effect of this practice is that certain contracts now require so large a capital investment that little effort is made by competitors to dislodge the entrenched contractor. In such cases, there may be no alternative but to renew. Toronto and Vancouver are each serviced by a single contractor, while several contractors share the task in Winnipeg. The price advantages in Winnipeg are greater than can be explained by variations in operating costs and conditions alone.

21 It is concluded that more active competition for this business would benefit post office costs. A programme of gradually reducing the size of contracts in order to attract more bidders should be instituted. Protection against excessive charges would be secured if contract renewals involving increased prices were made only after examination of the contractor's costs by a qualified accountant.

18 MISCELLANEOUS SERVICES

SERVICES FOR THE PUBLIC

REPORT 18: MISCELLANEOUS SERVICES

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THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

CONTENTS

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A number of briefs and submissions bearing on this subject were considered and these are duly recorded in the final volume of your Commissioners' reports.

Your Commissioners, in acknowledging the assistance and advice received, dissociate all those named above from any of the findings and conclusions contained in this report; for these, your Commissioners assume full responsibility.

1

INTRODUCTION

Previous reports of your Commissioners in this section, dealing with services for the public have covered the major individual services, the scale of which makes them in most cases a principal activity of the departments and agencies concerned. Scattered across the whole range of government operation, however, are a host of additional services, some substantial but many of them of minor proportions and merely incidental to the main programmes of the departments. These are offered to the public, or special segments of it, in various forms; some are charged for, others are free; some are familiar as the postman, others quite new and strange. The range and diversity of these services are broad indeed; they run from the issue of a passport to refining gold, from fumigation of plants to the granting of patents, from the operation of golf courses to providing dry dock facilities, and from testing the butcher's scale to keeping track of the milk production of cows. Over one hundred have been identified and there are many more.

Two important aspects of these activities have engaged the attention of your Commissioners: the revenues they yield and the adequacy of their management. These services in the aggregate have a substantial revenue potential. Because an increase in revenues is as effective in reducing the cost of government as a reduction in expenditure, one would hope to find in the public service an awareness of the need to collect all the revenues fairly chargeable to users. Unhappily, this is not the case and it must be concluded that development of this important revenue source leaves much to be desired. Preoccupation with the minutiae of expenditure is the order of the day and

has induced a casual disregard of revenue possibilities throughout the government.

The quality of management not only bears on the efficiency with which services are supplied but determines the responsiveness of departments to changing public needs. No valid objection to current practice can be raised on the grounds that the public need is neglected—rather is it oversupplied. But the failure to curtail or discontinue services as need declines, a tendency generally evident, constitutes bad management of a most expensive kind. While a fair degree of efficiency is found in the manner in which many services are provided, the range of present activities includes a number of questionable efforts. For example, some programmes initiated years ago as pioneering efforts have been continued, until to-day they compete with well-established private industry; others, set up to meet national emergencies, and involving non-federal responsibilities, have been carried on at an ever increasing scale long after the emergency has passed; still others, originally instituted to meet a vital economic need, have ignored the march of events and degenerated to mere vacation conveniences.

The inadequacies of the government's management methods, discussed in earlier reports, are to blame for the lack of responsiveness to changing need. The method of preparation of the Estimates concentrates attention on new and bigger programmes and pays scant attention to activities previously authorized. Within departments no incentive exists to curtail activity; rather the tendency is to resist any reduction. Accounting and Treasury methods deprive departments of any interest in the revenues. In some cases the promotion of the use of government services means for the department only an increased financial burden, even where resulting revenues may exceed the added costs.

The prescription, then, is more objective management—to exploit properly the revenue opportunities in a fair and equitable manner and to keep under review the various programmes offering services to the public, to the end that they are varied in character and intensity as the public needs change. This is not an activity to be pursued by central management—the programmes are so diverse that officials of each department must be made responsible for their own operations of this type. In the matter of charges made to users, in particular, there is no possible uniform pattern. In some cases free services are appropriate, in others a surplus of revenue over expense should be deliberately attempted. A prerequisite, however, to the management of charges is a knowledge of the true costs of services provided. At present this scarcely exists, but recommendations in the report on *Financial Management* are designed to remedy this deficiency. Other recommendations in the same

report, that revenues be taken into account and Parliamentary Votes be on a net basis, should provide an effective financial incentive which is sorely needed.

It must be recognized that departments are not entirely free to manage many of these services without regard to an over-riding duty to conform to public policy. Thus, considerations of a political nature may intervene when a need for changes in the scope or character of particular services becomes evident. Public policy, as such, is beyond the terms of reference of your Commissioners but they are bound to observe that the general inertia characterizing these activities cannot be excused on the grounds that necessary changes would have been politically unpalatable. In the absence of any real evidence of management initiative to keep programmes in balance with need, it must be assumed that the bugbear of political unpopularity is no more than a handy excuse for this failure.

No attempt is made in this report to submit a complete listing of the services identified and examined. In the following Chapter the principal classes are described, with particular services, chosen at random, described as illustrations.

2

MAIN CLASSES OF SERVICES

SERVICES IN THE FIELD OF TRANSPORT

Over twenty out of the one hundred services identified are related to the government's activities in the field of transport. The history of the development of the nation's transport facilities is replete with instances of promotion and assistance by the federal government. Marine, rail and air transport have each reached their present state only through massive government intervention, although the pattern of assistance has been by no means uniform. Today, in each field the federal government remains to regulate, to subsidize and to assist in various ways.

MARINE SERVICES

In the field of transport by water, a wide variety of services is provided, with responsibility for their management shared by a group of departments and agencies. This group comprises the Departments of Transport and Public Works, the St. Lawrence Seaway Authority and the National Harbours Board. They dredge navigable waterways and harbours; construct and operate canals; provide buoys, lights and other navigation aids; operate ice breakers; and build harbours, wharves and piers. To facilitate the handling of cargoes they operate terminal railways, cold storage and other warehouses, and grain elevators. The Department of Transport registers shipping and boats, inspects steamships, certifies masters and mates, and provides marine search and rescue services. It also operates ships to supply the far North, while another government agency, Northern Transportation Company Limited, operates as a

public carrier on the Mackenzie River. The supply of maps, charts and ice and weather information is carried out by several departments.

As a result of the long historical background of many of these services and the division of responsibility for their performance among different departments and agencies, the charges to users present a somewhat chaotic pattern. By way of illustration, your Commissioners describe hereunder the practices followed in the management of harbours, wharves and piers and of grain elevators.

Harbours, Wharves and Piers

The federal government is involved, directly or indirectly, in the management of all public harbours in Canada. Eight major harbours are administered by the National Harbours Board; eleven others, some of substantial size, are operated by local commissions having federal representation on their boards; and the Department of Transport operates directly 313 other public harbours.

The National Harbours Board, operating Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal, Churchill and Vancouver, was formed before the last war and took over these harbours with the exception of Churchill from local commissions. In 1960, with gross operating revenues of $14.8 million, the Board suffered a loss, after providing for interest and depreciation, of approximately $1.7 million, equivalent to 11.4 per cent of revenues. Among the individual harbours, however, the results varied widely, ranging from a loss of 110 per cent of revenue at Saint John to a profit of 37 per cent of revenue at Three Rivers. The fee structure is complex and quite different on the west coast from that used in the east. Changes in tolls and other charges to shipping require approval by the Governor in Council but attempts to overcome operating losses are rendered difficult in certain cases by unreasonably high capital debt and the danger of losing traffic if charges become non-competitive.

The most appropriate and businesslike group of tolls and charges are those levied by the eleven commission harbours which include Toronto, Hamilton and Victoria. These commissions generally manage to meet their costs from revenue and considerable flexibility was noted in the manner in which charges were set. Because the government has provided many capital facilities at no cost to the commissions, operating costs shown are not all-inclusive.

The Department of Transport employs harbour masters at only 115 of the 313 harbours under its control. It is also responsible for over 2,000 wharves located across the country, on seacoasts, navigable waterways and inland lakes; departmental officers are stationed at less than twenty per cent of these. The charging of fees or tolls for the use of these facilities is limited

to the manned locations and harbour masters and wharfingers look to the revenues they collect for their remuneration. The unmanned harbours and wharves come under the general supervision of District Marine Agents but no attempt is made to secure revenue therefrom.

The *Canada Shipping Act* specifies moorage and anchorage fees at these harbours, exempts certain types of vessels, and stipulates that no vessel may be charged a harbour fee more than twice in any year. Most other charges can be set or altered by the Department with the approval of the Governor in Council. At most harbours, the scale of charges has remained unaltered since 1954 and is generally lower than that of the National Harbours Board or commission harbours. In the past few years revenues have increased steadily and now cover direct operating costs as shown by the accounts. They fall short, however, of meeting maintenance or capital costs or the indirect administrative expense.

One reason why maintenance and capital costs are not taken into account is that they are the responsibility of the Department of Public Works and paid from its appropriations. Furthermore, the initiative in creating new harbour facilities lies with Public Works. The Department of Transport is expected to take over the operation of uneconomic facilities after completion, without having any part in the decision to construct them. In the report on *Real Property Management* your Commissioners suggest a solution in the recommendation that the Department of Public Works be deprived of any authority to initiate works and henceforth act as a construction and real property agent, charging the departments and agencies for all services rendered to them.

The main value of these changes and those resulting from other recommendations for programme budgeting and full allocation of costs will consist of the provision of accurate information as to the cost of operating the various harbour facilities. While the attainment of a break-even operation is a sound objective generally, it is recognized that national economic policy may call for the continued operation of certain harbours at a loss. The position of isolated communities cannot be ignored; international competition will affect some decisions. All that can be asked is that within established policies, tolls and charges be kept realistic and every effort be made to recover applicable costs. A knowledge of such costs is, obviously, fundamental to this purpose.

A considerable effort will be required to meet this prescription and bring order to the present haphazard pattern. The fees structure of the Department of Transport, built on no consistent principles and unrelated to the objective of cost recovery, can divert shipping from harbours operated by other

authorities seeking a more business-like operation. Review of the true financial aspects of the many harbours operated by the Department will disclose situations so bad that further federal operation of the harbours cannot be justified. In certain cases, the indicated solution may well consist of consolidating small marginal ports into more efficient central harbour facilities. The net result should be a reduction in the cost to the government, accompanied by an improvement in the over-all efficiency of the system of water transport. In another report dealing with organization your Commissioners suggest a more clear-cut division of responsibility among the departments and agencies engaged in this field. The removal of competition among agencies and overlapping of their services should facilitate the achievement of the objectives set out above.

Grain Elevators

The government owns and operates grain elevators at various points in Canada to facilitate the movement to world markets of the grain crops of the prairies. Some are operated by the National Harbours Board, some by the Board of Grain Commissioners. A third agency, the Canadian Wheat Board, with responsibility for marketing much of Canada's grain production, influences elevator operations through its ability to control, in large part, the volume of wheat passing through the various elevators.

The National Harbours Board owns fourteen elevators at eight different locations. Six of these are harbours operated by the Board, the other two being Prescott and Port Colborne (a consistent money maker). Some of the elevators are rented to private operators and at Three Rivers, one of the Board's harbours, elevators are owned and operated by private interests. The Board has not the authority to set its own rates. These are fixed by the Board of Grain Commissioners and have remained unchanged since 1951. Thus, with its tariffs governed by one independent agency and its volume largely influenced by another, the National Harbours Board is hard put to make ends meet in this operation. In 1960, with revenues of $7,118,000, the Board's elevators lost $1,886,000 after depreciation and interest charges.

The Board of Grain Commissioners itself owns elevators at Prince Rupert, Port Arthur and five inland points in western Canada, some of which it leases to private operators. Operating and maintenance costs are met from parliamentary appropriations and revenues deposited in the Consolidated Revenue Fund. At present, revenues cover direct operating costs but fall far short of meeting the substantial charges represented by interest and depreciation. As noted, this Board has authority to fix the tariffs chargeable by not only its own elevators but also those of the National Harbours Board.

AIR SERVICES

The growth of transport by air in the post-war period has been spectacular. In the settled parts of the country it has taken its place among the major transport services. In Canada's north it has a special significance, often being the only means of transport. Because of sparse populations and great distances, government assistance on a broad scale is needed to provide air transport to the more isolated communities.

Leaving aside the activities of Trans-Canada Air Lines, not reviewed by your Commissioners, the government provides across Canada a wide range of services, largely through the Department of Transport. Its Civil Aviation Branch is mainly responsible for the major airports and their supporting services; it also registers aircraft, issues airworthiness certificates, examines pilots, controls air traffic and provides aeronautical information. Its Meteorological Services provide weather information. Through the Telecommunications and Electronics Branch, essential facilities for communications are supplied, including teletype and radio circuits, radio beacons and instrument-landing systems. It participates in international control of airways and makes its facilities available to inter-continental aircraft flying over Canada.

There are almost 1300 airfields and seaplane bases in Canada of which 80 are considered part of a main-line system of airports. The Department of Transport operates 60 of the main-line airports, all but 18 of which possess passenger facilities; it also operates 74 other airfields used for supplementary or local purposes. The Departments of National Defence and Northern Affairs and National Resources and certain corporate agencies also operate airfields for their own purposes but make no services generally available to the public.

The Department of Transport provides airfield services and air terminal facilities. The former embrace landing, take-off and taxi facilities, including fire protection, lighting and snow removal; also, aircraft parking and handling facilities, such as fuelling. Terminal facilities include various types of buildings and parking areas to accommodate the airlines, the travelling public and concessionaires providing amenities and service. These services exist primarily for the benefit of the air carriers but are also available to government aircraft used on public business and private aircraft used for business or recreational purposes.

The investment in airports of the Department of Transport totals $334 million, over half of which is concentrated in fifteen major locations. New terminals under construction or in the planning stage will call for the expenditure of $74 million more. Revenues from the operation of these airports now

exceed $10 million annually but fall far short of covering direct operating costs including interest on investment. Based on long-range traffic projections, the large programme of expansion undertaken in recent years will, the Department believes, ultimately produce revenue in reasonable relation to investment. But it will be some considerable time before revenues from airlines, concessionaires and the public are sufficient to cover operating and capital costs.

In sharp contrast to most government programmes, the Department, in the operation of its major airports, has developed reliable cost information. It knows what the various services are costing but its ability to recover these costs is limited by factors other than the need merely to await the development of adequate traffic. Almost half the present facilities were built during the war and were acquired because they were surplus to military need at the conclusion of hostilities. After twenty years, many of these structures—hangars, living accommodation, and other buildings—are unsuitable, inefficient or worn-out. Some have been abandoned but others, including whole airports, are still operated though they have virtually no utility for any purpose. Further limitations of revenues arise from the necessity of providing free service to other government departments and observing a provision of the *Trans-Canada Air Lines Act* prohibiting changes higher than those made in the United States to "similar competing coast-to-coast services." A realistic review of the charges made by the Department is at present under way and from this some improvement in revenues may be expected. The charging of other departments for services rendered, a recommendation already made by your Commissioners, should afford some further relief, and consideration should be given to the appropriateness, under today's conditions, of the Trans-Canada Air Lines legislation to which reference is made above.

The wisdom must be questioned of continued operation by the federal government of a number of local airports where revenues are completely out of scale with costs. No doubt local pride and interest are involved, but it can be pointed out that in other countries the trend is away from federal operation of secondary airports, leaving their continued maintenance to local initiative. Moreover, studies have shown that municipal operation generally results in more effective utilization of manpower and lower administrative costs. Decisions in this area will be facilitated by the adoption of your Commissioners' recommendation, made elsewhere, for programme budgeting and taking revenues into account when making appropriations. Parliament should, as a result, have before it the costs of maintaining uneconomic airport operations, on an individual basis.

Unfavourable aspects of services rendered in the field of air transport are

susceptible of correction without any major upset or reorganization. This circumstance owes much to the fact that responsibility is contained in a single department and the development of positive and cohesive policy becomes possible, a situation very different to that in the area of marine services.

RECREATIONAL SERVICES

A number of services extended to the public by the federal government contribute to the recreational activities of the people, but two in particular have as their principal object the direct provision of facilities to the vacationing public.

Non-Commercial Canals and Marine Facilities

Used today almost entirely by pleasure craft are a number of canal systems, the origins of which stretch back many years to a time when they formed important highways for the movement of goods. The interest of government, first colonial and then federal, in the development of transportation as a spur to economic development, accounts for the spending of public money to build and operate these canals. While they have long since ceased to possess any economic significance or commercial utility, their operation as toll-free facilities has been continued by the federal government.

These canal systems, all in east-central Canada, are the St. Ours and Chambly canals on the Richelieu River connecting the St. Lawrence River and Lake Champlain; the Ste. Anne, Carillon and Rideau canals connecting Montreal, Ottawa and Kingston; and the Murray and Trent Canals connecting Lake Ontario with Georgian Bay. They are expensive anachronisms from the federal viewpoint, although some regard the link to Lake Champlain as still having a commercial potential. Operating costs exceed $2.3 million a year and the repairing and replacement of locks required from time to time, involves substantial sums. For example the lock at Fenelon Falls on the Trent canal is presently being reconditioned at an estimated cost of $900,000. Pleasure traffic through parts of these systems is substantial and the charging of tolls sufficient to cover direct costs should be considered. Ideally, the transfer of these works to provincial operation would place control in the level of government most directly interested and permit the Department of Transport, which now operates them, to attend to matters of greater federal significance.

At many wharves supervised by the Department of Transport the increasing population of pleasure craft is taxing existing facilities, once used mainly by fishing vessels. The government, as a result, is being pressed to provide

additional wharfage. No fees are charged for the use of these facilities and in the view of your Commissioners this revenue prospect should be explored. At least, departmental officials should not proceed on the assumption that the provision of free facilities for recreational purposes is a continuing federal responsibility.

National Parks

In the report on *Real Property Management* your Commissioners consider the organization and management of the national parks and submit an analysis of park areas, financial results and patronage received, for each park. The government's purposes are to preserve unspoiled certain areas of natural beauty and interest for the benefit of future generations and, as well, to provide playgrounds and vacation retreats for the present population and foreign visitors. Within the parks, therefore, are found various sporting facilities—golf courses, swimming pools and ski lifts; concessionaires supply services of all kinds; and townsites in the larger parks offer the visitor food and lodging and the goods and services normally procurable in a small city.

Your Commissioners conclude that the revenue aspects of parks' operation are indifferently managed and recommend changes designed to provide for the receipt of more equitable and consistent rentals from residents and concessionaires. Fees charged for the use of golf courses are generally below going rates elsewhere. The nominal fee for park entry, good for all parks for twelve months, seems particularly inappropriate.

SERVICES TO BUSINESS AND INDUSTRY

Within this category fall a large number of variegated services, many of them highly specialized and developed for the benefit of very small groups of users. They are not less important on that account, but being virtually independent of other programmes, the cost is more directly chargeable to beneficiaries and the tariffs covering their use should generally be designed to at least recover the costs involved.

Business Privilege

Two government activities in this group, the incorporation of companies and the granting of patents, constitute the extension of a privilege limited liability in one case and exclusive use of inventions in another. For this reason, the pricing policy of these services may properly take into account the recovery of more than the bare costs of dealing with the paper involved; while any failure to recover direct costs appears inexcusable. Because of the significance of these activities to the business life of the country, there should be special

concern for the efficiency with which they are performed. Each of the two programmes fails in meeting one or both of the above tests.

PATENTS. The Patent and Copyright Office under the Secretary of State grants patents to protect the rights in inventions for a seventeen-year period. The fee for a patent is $60, unchanged since 1906. Revenues in the year 1960-61 totalled $1,834,000 while estimated costs were $3,119,000. Several investigations have been made of this unsatisfactory condition, but solutions propounded have not been carried into effect. The imposition of an annual renewal fee would have certain advantages. As a matter of equity, the holders of patents which continue to be valuable would then contribute more heavily than those whose patents become worthless long before the seventeen-year period elapses. Regardless of the method, however, an increase in the fee structure to permit full recovery of costs would leave Canadian charges still low in comparison to the fees of many other countries. The subsidy implicit in the existing arrangement is enjoyed principally by foreigners as only six per cent of the patentees are Canadian.

In the matter of service, the situation is equally unsatisfactory. The Office issues something over 20,000 patents each year. It has a backlog of 70,000 applications pending.

We therefore recommend that:

1 Sufficient additional patent examiners be employed to permit the Office to keep abreast of demand and render efficient service.

2 Patent fees be increased to a point where revenues therefrom will cover at least the total of all costs, direct and indirect, incurred in performing the service.

INCORPORATION OF COMPANIES. The federal government and the several provinces have all enacted legislation covering the formation and supervision of limited liability companies. The Companies Division under the Secretary of State issues Letters Patent and reviews annual returns submitted by the companies incorporated under *The Companies Act*. Its revenues in 1960-61 were $580,000 and total costs were estimated to be $165,000. With this satisfactory margin there is little excuse for inferior service to applicants. Yet one section of the Division is below strength and the backlog of work is of serious proportions, occasioning almost universal and merited complaint by those affected.

We therefore recommend that: The staff of the Companies Division be brought up to strength and vigorous steps be taken to dispose of existing arrears and render prompt and efficient service to applicants.

Aids to Operation

Selected as illustrative of the large number of services extended to business and industry are the following seven widely differing activities:

LABORATORY SERVICES. Throughout the many research and inspection facilities of the government, a number of laboratories exist which are equipped to carry out testing work of various kinds. Many of these undertake testing work in their field of interest at the request of individual companies. Generally, an effort is made to avoid competing with independent testing establishments although there is complaint that some competition in fact exists.

Beneficiaries are sometimes charged for such work, with the object of recovering cost. Unfortunately the laboratories have no reliable cost information. Their records are incomplete and they do not usually follow the general practice in like establishments outside the government of keeping record of the time spent on each project. There is no way of ascertaining whether charges to users are adequate, but there is an overwhelming presumption that they are not.

RACE TRACK BETTING. Pursuant to its interest in the improvement of the breeding of horses, the Livestock Division of the Production and Marketing Branch of the Department of Agriculture is required to inspect public betting at race tracks. Happily, the Royal Canadian Mounted Police has been called in to assist in what is basically a police function. By statute the government receives one-half of one per cent of the amounts wagered. The supervisory programme is geared each year to the revenues received in the preceding one. While the connection between breeding improvement and the suppression of crime is a somewhat tenuous one, the police service rendered has utility to those engaged in the business of horse racing. The linking of charges to the volume of betting and rendering service in proportion thereto, represents a logical pattern. There seem no reason, however, why the Department of Agriculture should have any administrative responsibility in what is basically law enforcement.

COLD STORAGE WAREHOUSES. The National Harbours Board operates cold storage warehouses at Halifax, Quebec, Montreal and Vancouver. Originally government owned facilities were the only ones available but today all these

warehouses compete with privately owned establishments and generally meet their tariffs. In 1960 revenues of $1,078,000 were no more than two-thirds of costs (including depreciation and interest). The problem is compounded by the fact that under the *Cold Storage Act* the government subsidizes its competitors. In these circumstances, there seems no possibility of avoiding continuing losses. No compelling reasons exist for the government to continue to render this service and consideration might well be given to the disposal of the existing plants.

PLANT FUMIGATION. Imported plant products are inspected by the Department of Agriculture upon arrival in Canada and those found to be infested must either be refused entry or fumigated. Commercial fumigation services do this work at all ports with the exception of Montreal and Saint John where, because of dissatisfaction with the commercial services available, the Department itself provided the service. Costs, including overhead, are estimated at $33,000 annually, while revenues approximate $10,000. So long as the government performs this service at a third of cost, the development of satisfactory private facilities is unlikely.

UTILITY SERVICES. While heat, water, steam and electricity are sold to individuals and industries by a number of departments, as a by-product of arrangements for their own supply, the government through the Northern Canada Power Commission is itself in the utility business. The main purpose of the Commission was to supply power to mining operations outside the service areas of established power companies. Its activities have been expanded to serve certain needs of departments of government and it has recently installed a small municipal generating station far to the south, at Field, B.C., ostensibly to serve the needs of national parks in the area.

Hydro-electric plants at Snare Rapids and Mayo were built to supply two mining companies and tariffs are designed to recover costs. Contrary to general practice in the utility business, the companies have not been required to enter into commitments which would protect the government should mining operations cease and there be no alternative market for the power.

FILM MONITORING. The Department of National Health and Welfare operates a service for industries using radioactive substances. Workers in these plants wear a small film clip attached to their clothing. Periodic examination of the clips indicates the degree to which the wearer has been exposed to radiation. In 1954 a rate of fifteen cents per film was established and is still in effect. Current revenue therefrom is approximately half the $85,000 spent annually by the government. The industrial employers are the involuntary beneficiaries of this subsidy.

DRY DOCKS. The Department of Public Works operates three dry docks for the benefit of the shipbuilding and ship repair industry. Two are near Quebec, the other at Esquimalt, British Columbia. They have four principal users, two on each coast. These establishments recover only 50 per cent of operating costs, so the $350,000 operating deficit, in the circumstances, must be viewed as part of the broad assistance given to Canadian shipbuilding and repair. Under continued government operation, no prospect exists of recovering costs without prohibitive increases in charges. In all probability the cost to the government could be reduced by turning operation over to the users and paying such cash subsidies as might be considered appropriate.

PERSONAL SERVICES

Familiar to many Canadians are the passport services operated as part of the Department of External Affairs. The issue of a passport constitutes an exercise of the prerogative of the Crown and citizens have no statutory entitlement thereto. The Department provides some collective travel documents for members of the public travelling in groups and, in addition, issues Certificates of Identity to stateless persons.

Fees charged for passports have remained unchanged for over thirty years. The number of Canadians travelling abroad has increased materially and the great rise in volume in the Passport Office has permitted this service to continue to yield a handsome margin in spite of cost increases. Revenues currently exceed $725,000 and estimated direct expense totals $425,000.

A passport on its face is no more than a request by the Sovereign to grant the bearer safe passage through foreign states. It does not purport to be a certificate of identity but is often viewed as such. Certain precautions are taken to prevent improper issue of passports but they fall far short of what is needed to justify responsible certification of the nationality of the bearer. The gathering of the necessary evidence to authenticate statements made by applicants would entail additional expense and give rise to delays seriously inconveniencing the travelling public. If, therefore, the avoidance of improper passport use should be considered of sufficient consequence to warrant a more effective scrutiny of the applicant's entitlement, it would probably become necessary to issue temporary or "one-time" travel documents to those who could not conveniently await completion of the verification. Your Commissioners offer no opinion on this subject but point out that under present conditions it is inevitable, in Canada as in other countries, that some passports will be issued on the basis of fraudulent representations. This subject is further discussed in the report on *External Affairs*.

Federal support of agriculture, particularly of prairie agriculture, encompasses a broad sweep of subsidies, loans, transport subventions, import restrictions, premiums, crop support schemes, marketing services, scientific research, as well as the provision of many services to individual farmers. The programmes referred to hereunder, while providing assistance to individuals, have the common characteristic of conferring a benefit upon the people as a whole.

Records of Livestock Performance

The Production and Marketing Branch of the Department of Agriculture operates several programmes designed to permit the issue of official records of performance of purebred livestock. The field work is carried out by departmental inspectors and from their reports the data are processed and analyzed in Ottawa. The resulting official records identify the superior individuals and contribute to better management of breeding herds. To the farmer this service is of great value, not only in guiding his own programme, but because the commercial value of his stock is enhanced when its performance is attested. Costs of the programme in 1960-61 were estimated at $1.5 million and revenues from fees charged for this service covered less than 20 per cent of this sum.

Trees for Shelter Belts

At the turn of the century the federal government set out to demonstrate to prairie farmers the advantages of creating shelter belts around their farms. Seedling trees are provided free to enable farmers to establish these plantations. Since 1901, enough trees have been so distributed to twice girdle the earth. Current annual costs are approximately $450,000 and the cost per seedling is less than ten cents. It appears to your Commissioners that the original purposes of this programme—to demonstrate that certain trees will grow on the prairies and that shelter belts are advantageous—were achieved many years ago. In their view, the programme might appropriately have been discontinued or placed on a self-sustaining basis through making fair charges for the trees supplied.

Community Pastures

As part of the federal response to the emergency created in the 1930's by prolonged drought in the prairie provinces, community pastures were established. Their purpose was to enable farmers engaged in grain production to diversify their operations by pasturing livestock on lands not suitable for

cultivation. While, happily, moisture returned to the prairies many years ago, this programme has been continued, and today parallels at least one similar provincial programme.

Fees charged for pasturage, breeding, dehorning and inoculation are designed to recover direct operating costs and are adjusted from time to time as costs change. Generally, this objective is gained but indirect costs of some $300,000 annually are not recovered. Federal charges are generally lower than those made for similar services by the Government of Saskatchewan.

This operation has a strong provincial flavour and the only conceivable justification for spending federal money for such purposes would appear to be a major emergency beyond the capacity of the provinces to meet. No such emergency has existed for many years.

We therefore recommend that: The various services extended to individuals and businesses by the Department of Agriculture and associated agencies be surveyed for the purpose of establishing:

a. the propriety of the tolls, fees and charges for the services rendered, and

b. the need and utility of the several services and the extent of present federal responsibility for their provision.

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FINANCIAL CONSIDERATIONS

A BASIC PRINCIPLE

There is no statutory provision of general application which requires that a charge be made for a service rendered to an individual or business. The *Financial Administration Act* grants a broad discretion to the Executive to decide for what services charges should be made and how far they should seek to recover the government's cost, as follows:

> 18. Where a service is provided by Her Majesty to any person and the Governor in Council is of opinion that the whole or part of the cost of the service should be borne by the person to whom it is provided, the Governor in Council may, subject to the provisions of any Act relating to that service, by regulation prescribe the fee that may be charged for the service.

Other legislation is more specific. Some statutes specify the amounts to be charged; others lay down the basis on which charges are to be computed. For example, the *Electricity Inspection Act* provides:

> 21. The fees for the inspection and testing of meters, lamps and other electrical instruments and appliances, shall be determined from time to time by the Governor in Council, and such fees shall be regulated so that they will, as nearly as may be, meet the cost of carrying this Act into effect . . .

Provisions of the latter type depend for their observance on business like management by departmental officers but under present conditions there is no effective overseeing of their performance in this regard.

The principal weakness, then, in the statutory framework is that while power to levy charges is reposed in the Cabinet, there is no general require-

ment upon departmental officials to bring the various programmes forward for consideration of the Cabinet.

Your Commissioners believe a more appropriate procedure would be to lay down the general principle that services must be charged for at rates designed to effect complete recovery of costs, save those in respect of which the Governor in Council grants specific exemption in whole or in part. As a result, services rendered free or below cost would require executive sanction, while departments would be under obligation to make proper charges for all others. That exceptions will have to be made is quite evident. For example, services to relieve distress in an emergency are usually provided free of charge. Services conferring privileges, on the other hand, may be charged for at rates which produce a margin over cost. Services which compete with outside suppliers may have to adopt commercial type scales of competitive charges, whether or not they result in full recovery of costs. One further alternative is always available, and in certain cases the preferable course, namely, paying or subsidizing an outside organization to render the service required.

COSTS OF SERVICES

Regardless of the policy adopted, a fundamental requirement is that accurate cost information be developed on a continuing basis. Such information is needed for purposes of management control of programmes as well as for the assessment of the adequacy of charges to the public where they are made. For a number of reasons, the practice of all departments and agencies should be uniform in the elements of cost taken into account; and the aim should be to develop all-inclusive costs, embracing indirect overheads, depreciation, and interest where applicable Charges for competing services offered by different agencies should not, as at present, be influenced by varying accounting practices used for cost determination. The National Harbours Board now includes depreciation (although called "a reserve fund for the replacement of fixed assets" in the statute) in its costs; the Department of Transport which manages other harbours does not.

In the report on *Financial Management* your Commissioners recommended the adoption by departments of accrual accounting and the inclusion in operating expenses of non-cash charges such as depreciation. Design of departmental accounting systems to meet the needs of management will thus provide the necessary framework; and subdivisions of costs and revenues according to programmes should yield the information required for every purpose. So long as the cost information is provided by these regular departmental ac-

counts, instead of requiring periodic investigation, there should no longer be the danger of unawareness of changing cost-revenue relationships, and management should be in a position to move promptly to correct developing imbalances.

In most cases services extended are of a uniform character and susceptible of being priced at a single figure to all. Some programmes—laboratory testing for example—render services involving varying costs, depending on the nature and extent of the work and the time required to perform it. In such cases, the determination of cost necessitates for each job keeping records of time spent and supplies consumed, as well as having available current information as to direct and indirect overheads.

THE DETERMINATION OF CHARGES

Charges to the public are fixed today in three different ways—by statute, by order in council or by the minister at his discretion. Fees and tolls fixed by the relevant legislation represent a minority of present charges but they constitute a troublesome class because of their relative rigidity. Some such fees have remained unchanged for fifty years or more and it is idle to expect that Parliament will be prepared to complicate a busy legislative programme by amending statutes, merely to vary charges made for individual services.

Most of the more important services have their charges authorized by order in council. The initiative rests with departmental officers and their recommendations are generally accepted. Discretionary charges may be made pursuant to a general statutory direction as to principles to be followed, or they may simply be put into effect on the sole responsibility of the minister concerned.

If the objective is, as it must be, to establish charges on some systematic basis and to provide for their revision as needed, the fixing of charges by statute should be avoided and guide-lines of general government policy laid down to indicate acceptable practice to departmental officials. The adoption of a general requirement that charges be made and that the level thereof be such as will recover the total cost of services provided would, as previously suggested, permit many of these matters to be settled within departments without resort to Cabinet approval. Exceptions for services to be rendered other than on a break-even basis should, however, require approval by order in council when rates are initially established and upon their periodic revision. In all cases, the responsibility for initiating changes in rates, consistent with established policy, should rest exclusively upon the ministers individually guided by senior administrative officers of the departments and agencies.

In a few cases, in an effort to discourage abuse by the public, nominal charges have been established for services which might otherwise have been rendered free of charge. Where correspondence with users is required in order to collect the charge, there is danger that the cost of the necessary accounting and paperwork will exceed the revenue. No general rule can be laid down to govern the use of deterrent charges, but cost considerations and the convenience of legitimate users should be borne in mind when charges are imposed for deterrent purposes alone.

METHODS OF COLLECTION

Various methods of accepting payment for services are found in the different programmes. Cash, certified cheques, uncertified cheques, postal and express orders are all accepted. Credit is extended to certain users, sometimes with an advance deposit, sometimes without one. Instances were noted, the Patent Office for example, of cumbersome and expensive procedures in the issue of receipts. Again, no standards can be established because of differing circumstances, but the two principal attributes of each system of charge and collection should be that it reflects a proper regard for the convenience of the users and prudence in the handling of public money. Thus, various cash and accounting procedures will be appropriate, from cash register operation to the extension of credit along the lines of commercial concerns. The development of systems of internal control within departments, previously recommended, will necessarily take into account the precautions needed to protect these revenues.

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CHANGES IN PROGRAMMES

If services are to be kept truly responsive to the public need, something more than existing practices will be necessary. Changes of various sorts exert continual pressures which render particular services of greater or lesser benefit. Economic development, technological advance, scientific discoveries, changes in the work and play habits of the people—these and many other influences bear upon many of the government's programmes and render them, as time goes on, of greater or lesser utility. The development of similar services by provinces or private organizations can convert the role of the federal government from that of a pioneer to that of a competitor. Programmes launched with high hopes may, because of faulty conception, attract a steadily declining degree of patronage.

But these changes do not often occur suddenly. Usually the transition of a service from a state of high utility to the point where results hardly justify its continuance takes place over a period of years. An example is the gradual loss of utility as a transport facility of our earlier canals. The point at which emergency services cease to be necessary is more quickly reached as a rule, but even these may have useful lives extending over a few years.

The adjustment of these services to such changes is, therefore, a matter of considerable difficulty, even without taking into account the possible political consequences. Yet if the attempt is not made, it is inevitable that programmes will be carried on well beyond the point at which they cease to be justifiable. Probably the best single safeguard is to insist on charges sufficiently high to cover costs. Where this is done, the users will themselves

impel programmes out of existence when the value of the service ceases to exceed what they have to pay for it. Such a policy may well be more valuable as a means of identifying obsolete programmes and forcing corrective action than as a device merely to supplement revenue. Apart from this, however, there is need of periodic assessment of all programmes by the administering departments. Programme review conducted by the Treasury Board will be a further protection. Only by these means can the costs of inertia and empire building be avoided and the various programmes kept properly responsive to need.

The circumstances which will call for programme changes may be briefly summarized as follows:

- Reductions in scale or scope will be appropriate,
  - when similar services are offered by other public or private bodies,
  - as public need declines or the purpose for which the service was initiated is fulfilled by other means,
  - as emergencies are being overcome.
- Discontinuance of the service will be appropriate,
  - when other facilities are firmly established,
  - when facilities become obsolete or the public need has ceased,
  - when emergencies have passed (a statutory expiry date for such services would be helpful),
  - where a demonstration service has secured its objective,
  - where, except in the cases of services specifically exempted from the obligation to recover their costs from charges, revenues cease to cover the total costs of services,
  - where, in the case of assistance to special groups, e.g., dry dock operation, inability to establish any consistent cost-revenue relationship may lead to the payment of grants or subsidies as an alternative to continued operation by the government.

We therefore recommend that: 1 Except where the Governor in Council decides otherwise, charges be made for all services rendered to the public and the amounts thereof be so established as to recover the full cost to the government of the service supplied.

2 Departments and agencies annually assess the operation of all services to the public under their administration and make changes or submit recommendations therefor, as may be required to maintain the proper responsiveness of services to the public need.

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